# OFFICIAL STATEMENT DATED DECEMBER 3, 2002

**Moody's Rating: Aaa (Underlying Aa2)**

**NEW ISSUE, BOOK-ENTRY ONLY** **(See "Other Certificate Information—Rating.")**

*In the opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Certificates, interest evidenced and represented by the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest evidenced and represented by the Certificates also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest evidenced and represented by the Certificates is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest evidenced and represented by the Certificates received by certain S corporations may be subject to tax, and interest evidenced and represented by the Certificates received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest evidenced and represented by the Certificates may have other federal tax consequences for certain taxpayers. See "Tax Matters—Tax Exemption of Certificates" and "—Certain Other Federal Tax Consequences."*

## STATE OF WASHINGTON
## CERTIFICATES OF PARTICIPATION
## $12,870,000
## OFFICE OF THE SECRETARY OF STATE, SERIES 2002F
## (EASTERN WASHINGTON REGIONAL ARCHIVES PROJECT)

**Evidencing and Representing Undivided Proportionate Interests of the Registered Owners Thereof in Base Rent Payments to be Made by the State of Washington Pursuant to the State Agency Financing Lease**

**Dated: December 1, 2002** **Due: July 1, as shown on page i hereof**

The Certificates of Participation, Office of the Secretary of State, Series 2002F (Eastern Washington Regional Archives Project), (the "Certificates") will be executed and delivered in fully registered form and, when executed and delivered, will be registered initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only, in denominations of $5,000 and any integral multiple thereof. Purchasers will not receive certificates representing their beneficial ownership interests in the Certificates purchased, except as described herein.

The interest component of Base Rent Payments is payable semiannually on each January 1 and July 1, beginning July 1, 2003. Principal and interest evidenced and represented by the Certificates is payable directly to DTC by The Bank of New York, as Fiscal Agent for the Certificates (the "Fiscal Agent"). Upon receipt of payments of principal and interest represented by the Certificates, DTC in turn is obligated to remit such payments to the DTC Participants (as described herein) for subsequent disbursement to the purchasers of beneficial ownership interests in the Certificates.

The Certificates are subject to prepayment prior to their respective scheduled Principal Payment Dates. See "The Certificates—Prepayment."

The Certificates are being executed and delivered to pay for the construction by the Office of the Secretary of State, Archives and Records Management Division (the "State Agency") of a new Eastern Washington Regional Archives Building on the campus of Eastern Washington University and to fund issuance costs with respect to the Certificates. The Certificates are being executed and delivered by the Fiscal Agent pursuant to a Trust Agreement among the Fiscal Agent, the State Treasurer and the Washington Finance Officers Association ("WFOA"), a Washington non-profit corporation. The Certificates represent undivided proportionate interests in Base Rent Payments to be made by the State of Washington (the "state") under a State Agency Financing Lease (the "Lease") between WFOA and the state.

Payments by the state of Base Rent Payments are subject to appropriation by the State Legislature and Executive Order reduction by the Governor and may be terminated as provided in the Lease.

THE CERTIFICATES DO NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE STATE OF WASHINGTON OR OF THE STATE AGENCY, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE OR BY THE STATE AGENCY, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR OF THE STATE AGENCY, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE CERTIFICATES REPRESENT AN UNDIVIDED PROPORTIONATE INTEREST IN BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE. THE BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE ARE PAYABLE SOLELY FROM THE SOURCES IDENTIFIED HEREIN, AND ARE SUBJECT TO TERMINATION UPON THE OCCURRENCE OF CERTAIN EVENTS SPECIFIED IN THE LEASE. NOTHING IN THE CERTIFICATES OR THE LEASE SHOULD BE CONSIDERED OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE OR THE STATE AGENCY TO MAKE THE PAYMENTS DUE.

Payment of the principal of and interest on the Certificates when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Certificates. See "Other Certificate Information—The MBIA Insurance Corporation Insurance Policy" and Appendix G—Municipal Bond Insurance Policy Specimen."

*This cover page contains certain information for quick reference only, and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

*This cover page contains certain information for quick reference only, and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

The Certificates are offered when, as and if executed and delivered, and are subject to receipt of the legal opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Certificate Counsel to the state, and certain other conditions. It is expected that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Fiscal Agent on behalf of DTC by Fast Automated Securities Transfer on or about December 17, 2002.

No dealer, broker, sales representative, or other person has been authorized to give any information or make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the state. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from sources which are believed to be current and reliable but is not guaranteed as to its accuracy or completeness. Estimates, forecasts, projections, and expressions of opinion included herein should not be interpreted as statements of fact. The statements and information herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the securities offered hereby shall under any circumstances create an implication that there has been no change in the affairs of the State of Washington, or any other party described herein, since the date hereof. Neither this Official Statement nor any statement made herein is to be construed as a contract with the purchasers of any of the Certificates.

**STATE OF WASHINGTON**

**CERTIFICATES OF PARTICIPATION**

**$12,870,000**

**OFFICE OF THE SECRETARY OF STATE, SERIES 2002F**
**(EASTERN WASHINGTON REGIONAL ARCHIVES PROJECT)**

**Evidencing and Representing Undivided Proportionate Interests**
**of the Registered Owners Thereof**
**in Base Rent Payments to be Made by the State of Washington**
**Pursuant to the State Agency Financing Lease**

**CERTIFICATE PAYMENT SCHEDULE**

| Principal Payment Date (July 1) | Principal Component | Interest Rate | Yield | Price |
|---|---|---|---|---|
| 2003 | $ 310,000 | 3.000% | 1.400% | 100.86% |
| 2004 | 650,000 | 3.000 | 1.850 | 101.74 |
| 2005 | 670,000 | 3.000 | 2.200 | 101.96 |
| 2006 | 700,000 | 3.000 | 2.550 | 101.51 |
| 2007 | 710,000 | 3.000 | 2.880 | 100.51 |
| 2008 | 730,000 | 3.200 | 3.200 | 100.00 |
| 2009 | 750,000 | 3.500 | 3.500 | 100.00 |
| 2010 | 780,000 | 4.000 | 3.750 | 101.63 |
| 2011 | 810,000 | 4.000 | 3.950 | 100.36 |
| 2012 | 845,000 | 4.000 | 4.050 | 99.61 |
| 2013 | 880,000 | 4.000 | 4.200 | 98.31 |
| 2014 | 925,000 | 4.250 | 4.350 | 99.10 |
| 2015 | 960,000 | 4.400 | 4.460 | 99.43 |
| 2016 | 1,000,000 | 4.500 | 4.570 | 99.30 |
| 2017 | 1,050,000 | 4.600 | 4.670 | 99.27 |
| 2018 | 1,100,000 | 4.750 | 4.760 | 99.89 |
| Total | $12,870,000 | | | |

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**STATE FINANCE COMMITTEE**
**of the**
**STATE OF WASHINGTON**

Michael J. Murphy .................................................. State Treasurer and Chairman
Gary Locke ........................................................................... Governor and Member
Brad Owen......................................................... Lieutenant Governor and Member

Allan J. Martin..................................................................... Deputy State Treasurer

Christine Gregoire ........................................................................ Attorney General

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**http://www.wa.gov/tre**

The availability of this publication via the Internet will not under any circumstances create any implication that there has been no change in the affairs of the state since the date hereof, or that the statements and information herein are current as of any date after the date hereof.

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*Information set forth in this summary is qualified by the entire Official Statement.*
*A full review of the entire Official Statement should be made by potential investors.*

## SUMMARY DESCRIPTION OF THE CERTIFICATES

| | |
|---|---|
| Certificates: | The State of Washington Certificates of Participation, Office of the Secretary of State, Series 2002F (Eastern Washington Regional Archives Project) (the "Certificates"), represent undivided proportionate interests in Base Rent Payments to be made by the State of Washington (the "state") pursuant to the State Agency Financing Lease (the "Lease") between the Washington Finance Officers Association ("WFOA"), which is a Washington nonprofit corporation, and the state. The Certificates are dated December 1, 2002. |
| Interest Payments: | The interest component of Base Rent Payments is payable semiannually on each January 1 and July 1, beginning July 1, 2003. |
| Principal Payments: | The principal component of Base Rent Payments is payable annually on July 1, beginning July 1, 2003, through and including July 1, 2018. |
| Prepayment: | The Certificates are subject to optional and extraordinary prepayment prior to their respective Principal Payment Dates as further described herein. |
| Form of Certificates: | The Certificates will be executed and delivered in fully registered, book-entry only form in denominations of $5,000 or any integral multiple thereof. |
| Fiscal Agent: | The Bank of New York will act as Fiscal Agent for the Certificates (the "Fiscal Agent"). Payments of principal and interest represented by the Certificates will be paid to the Fiscal Agent which in turn will be obligated to remit such payments to The Depository Trust Company ("DTC"). DTC will be obligated to remit payments to its Participants, who in turn will be obligated to remit such payments to the beneficial owners in accordance with the operational arrangements then in effect at DTC. |
| Security: | Except as otherwise described herein, Base Rent Payments are due from the state on behalf of the Office of the Secretary of State, Archives and Records Management Division (the "State Agency") under the Lease between WFOA and the State Agency. Payments by the state of Base Rent Payments are subject to appropriation by the State Legislature and Executive Order reduction by the Governor. Upon a failure of the State Legislature to appropriate or Executive Order reduction by the Governor, the State Agency is permitted to terminate the Lease as provided therein.<br><br>THE CERTIFICATES DO NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE STATE OF WASHINGTON OR OF THE STATE AGENCY, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE OR BY THE STATE AGENCY, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR OF THE STATE AGENCY, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE CERTIFICATES REPRESENT AN UNDIVIDED PROPORTIONATE INTEREST IN BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE. THE BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE ARE PAYABLE SOLELY FROM THE SOURCES IDENTIFIED HEREIN, AND ARE SUBJECT TO TERMINATION UPON THE OCCURRENCE OF |

CERTAIN EVENTS SPECIFIED IN THE LEASE. NOTHING IN THE CERTIFICATES OR THE LEASE SHOULD BE CONSIDERED OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE OR THE STATE AGENCY TO MAKE THE PAYMENTS DUE.

WFOA has assigned and transferred to the Fiscal Agent all of its right, title and interest in, to and under the Lease and a State Agency Site Lease, dated as of December 1, 2002 (the "Site Lease") pursuant to an Assignment between WFOA and the Fiscal Agent.

Purpose: The Certificates are being executed and delivered to pay for the construction of a new Eastern Washington Regional Archives Building on the campus of Eastern Washington University and to fund issuance costs with respect to the Certificates. See "The Project" and "Sources and Uses of Funds."

Legal Opinion: The Certificates are offered when, as and if executed and delivered, subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Certificate Counsel, and certain other conditions. The proposed form of such opinion is set forth in Appendix C.

Certificate Rating: The Certificates have been rated "Aaa" (underlying "Aa2") by Moody's Investors Service. See "Other Certificate Information—Rating."

Continuing Disclosure: The state will enter into an undertaking for the benefit of the owners of the Certificates to provide certain financial information and operating data to certain information repositories annually and to provide notice to each of those repositories or to the Municipal Securities Rulemaking Board and to a state information depository for the state, if one is created, of certain events pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (the "Rule"). See "Continuing Disclosure Undertaking."

**OFFICIAL STATEMENT**

# STATE OF WASHINGTON
# CERTIFICATES OF PARTICIPATION
# $12,870,000
# OFFICE OF THE SECRETARY OF STATE, SERIES 2002F
# (EASTERN WASHINGTON REGIONAL ARCHIVES PROJECT)

**Evidencing and Representing Undivided Proportionate Interests of the Registered Owners Thereof in Base Rent Payments to be Made by the State of Washington Pursuant to the State Agency Financing Lease**

## INTRODUCTION

This Official Statement, including the cover hereof and the appendices hereto, was prepared to provide certain information relating to the sale and delivery by the State of Washington (the "state") of the above-captioned Certificates of Participation (the "Certificates"). Capitalized terms used herein, if not specifically defined, are used as defined in Appendix I to the Trust Agreement, referred to below.

The proceeds of the Certificates will be used to pay for the construction by the Office of the Secretary of State, Archives and Records Management Division (the "State Agency") of a new Eastern Washington Regional Archives Building (the "Project") on the campus of Eastern Washington University (the "University"), and to fund issuance costs with respect to the Certificates.

The Certificates are being executed and delivered by the Fiscal Agent pursuant to a Trust Agreement with respect to the Certificates (the "Trust Agreement"), dated as of December 1, 2002, among the Fiscal Agent, the State Treasurer and the Washington Finance Officers Association ("WFOA"), a Washington nonprofit corporation. The Certificates represent undivided proportionate interests in Base Rent Payments to be made by the state under a State Agency Financing Lease, dated as of December 1, 2002, between WFOA and the state (the "Lease"). The Bank of New York will act as Fiscal Agent for the Certificates (the "Fiscal Agent").

The parcel of real property on which the Project will be located and all improvements thereon (the "Site") is being leased by the state, acting by and through the State Agency, from the University, pursuant to a 99-year ground lease, dated as of February 1, 2002, between the University and the State Agency (the "Land Lease"). WFOA and the state, acting by and through the State Agency and the State Treasurer, have entered into a State Agency Site Lease, dated as of December 1, 2002 (the "Site Lease"), for the sublease of the Site to WFOA. Pursuant to the Lease, the state is further subleasing the Site and the Project thereon from WFOA (collectively, the "Property") for the benefit of the State Agency. The term of the Site Lease is five years longer than the term of the Lease.

Pursuant to the Assignment dated as of December 1, 2002 (the "Assignment"), WFOA is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to the Site pursuant to the Site Lease and the Land Lease, all of its rights to receive the Base Rent Payments from the state pursuant to the Lease; its right to take all actions, exercise all remedies and give all consents under and pursuant to the Site Lease, the Land Lease and the Lease, and all of its remaining right, title and interest in, to and under the Site Lease, the Land Lease and the Lease, and in and to the Property. For summaries of the Trust

Agreement, the Land Lease, the Lease, the Assignment, and the Site Lease, see Appendix B—Definitions and Summary of Certain Legal Documents. For a description of the Land Lease, see "Sources of Payment and Security for the Certificates—The Land Lease."

The Lease constitutes a special, limited obligation of the state payable solely from the sources and subject to the limitations set forth therein. Neither the Base Rent Payments nor the Certificates constitute or represent debt or general obligations of the state, and neither the full faith and credit nor the taxing power of the state is pledged to the payment of any Base Rent Payments or the principal or interest evidenced and represented by the Certificates. Payments by the State Treasurer of any Base Rent Payments are subject to appropriation by the State Legislature and Executive Order reduction by the Governor. An election by the State Legislature not to appropriate, or any Executive Order reduction by the Governor, would not constitute an event of default under the Trust Agreement or the Lease.

*Numerous state agencies including, in particular, the Office of the State Treasurer, the Department of Revenue, the State Attorney General, the Office of Economic and Revenue Forecast Council, the Department of Retirement Systems, and the Office of Financial Management, have assisted the State Finance Committee (the "Committee") in assembling the information contained herein.*

The Committee is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. Pursuant to Chapter 3, Laws of 1981 (RCW 43.33.030), the Office of the State Treasurer provides administrative support to the Committee. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds and approve all financing contracts and certificate of participation issues. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of its official duties in accordance with prescribed policies of the Committee.

Certain financial information regarding the state has been taken or derived from the audited financial statements and other financial reports of the state. Reference should be made to said audited financial statements and other financial reports, and their accompanying notes, for complete information. Copies thereof are available for inspection at the Office of the State Treasurer upon request.

The summaries and descriptions herein of the Certificates, the Trust Agreement, the Land Lease, the Lease, the Assignment, the Site Lease, the Committee's authorizing resolution, and certain provisions of state law do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof, copies of which are available for inspection at the Office of the State Treasurer upon request. Any statements herein involving estimates, projections or forecasts are to be construed as such, rather than as statements of fact or representations that such estimates, projections or forecasts will be realized.

## THE CERTIFICATES

### Authorization

The state is authorized by chapter 39.94 RCW, as amended (the "Act"), to enter into financing contracts, for the state and its agencies or on behalf of certain local agencies specified in the Act, to acquire real and personal property to be used by the state or its agencies or such local agencies, and to issue certificates of participation in those contracts. Financing contracts may include, but are not limited to, conditional sales contracts, financing leases, lease purchase contracts, and refinancing contracts that provide for payment by the state over a term of more than one year.

All financing contracts of the state must be approved by the Committee, and financing contracts for the acquisition of real property by the state must receive the prior approval of the State Legislature. The

Washington Supreme Court in *State Department of Ecology v. State Finance Committee*, 116 Wn.2d 246, 804 P.2d 1241 (1991), held that a financing contract for the state's Department of Ecology did not create debt within the meaning of Article 8, Section 1, of the Washington State Constitution.

By Resolution No. 923, adopted on July 17, 2000, the Committee authorized and approved the execution and delivery of certificates of participation (including the Certificates) in series from time to time in payments to be made by the state pursuant to the state agency financing leases; provided, that the aggregate principal amount of such certificates of participation outstanding at any one time shall not exceed $150,000,000. On July 31 2001, the Committee approved a Finance Plan under which the aggregate principal amount for certificates of participation issued for the state during the 2001-03 Biennium was set at $189,000,000, including certificates expected to be issued to finance acquisition of equipment for state agencies and local governments.

By Resolution No. 964 adopted on September 18, 2002, the Committee authorized and approved the execution and delivery of the Certificates and approved the forms of the Trust Agreement, the Lease, the Assignment, and the Site Lease, and the execution and delivery thereof.

### General Description

The Certificates represent undivided proportionate interests in Base Rent Payments to be made by the state, on behalf of the State Agency, pursuant to the Lease. The Certificates will be dated as of December 1, 2002. The principal components of Base Rent Payments (the "Principal Components") evidenced and represented by the Certificates will be payable on the dates (each a "Principal Payment Date") and in the amounts as shown on page i of this Official Statement. The Certificates will be executed and delivered as fully registered certificates without coupons in denominations of $5,000 or any integral multiple thereof.

The interest component of Base Rent Payments will be payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date" and together with Principal Payment Dates, "Certificate Payment Dates"), beginning July 1, 2003, at the rates shown on page i of this Official Statement. Such interest will be computed using a 360-day year comprised of twelve 30-day months. The interest component of the Base Rent Payments will be payable to the person whose name appears on the certificate register of the Fiscal Agent as of the close of business on the 15th day of the month immediately preceding the month in which the Interest Payment Date occurs (the "Record Date"), whether or not such day is a business day. Interest is to be paid by check or draft mailed by first class mail on each Interest Payment Date to each Owner at the address as it appears on the certificate register of the Fiscal Agreement, or at the request of any Owner of at least $1,000,000 in aggregate principal amount of Certificates, by wire transfer within the United States of America of immediately available funds to the bank account specified in writing by such Owner to the Fiscal Agent no later than the applicable Record Date.

Payment of the Principal Component or Prepayment Price evidenced and represented by each Certificate is required to be made on the Principal Payment Date upon presentation and surrender thereof at the principal corporate trust office of the Fiscal Agent.

So long as the Depository Trust Company ("DTC") book-entry system is used for the Certificates, principal and interest represented by the Certificates will be paid to DTC for distribution to its Participants and payment to the beneficial owners of the Certificates. See Appendix F—Book-Entry System.

**Prepayment**

*Optional Prepayment.* The Certificates with Principal Payment Dates prior to July 1, 2013, are not subject to optional prepayment prior to their respective Principal Payment Dates. The Certificates with Principal Payment Dates on and after July 1, 2013, are subject to prepayment prior to their respective stated Principal Payment Dates, as a whole or in part in Authorized Denominations (and by lot within a Principal Payment Date if less than all of the Certificates due on such date are prepaid) on any date on or after July 1, 2012, upon the exercise by the state of its option to prepay Principal Components evidenced and represented by such Certificates, at a Prepayment Price equal to the Principal Components prepaid, plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date, without premium.

*Extraordinary Mandatory Prepayment.* The Certificates are subject to prepayment on any date prior to their respective Principal Payment Dates, as a whole, or in part by lot in Authorized Denominations, upon certain governmental takings, loss of title and casualty loss, from amounts deposited in the Prepayment Account in the amount of the Principal Component evidenced and represented thereby being prepaid, plus accrued interest evidenced and represented thereby to the Prepayment Date, without premium.

*Selection of Certificates for Prepayment.* If less than all of the Certificates payable on a Principal Payment Date are prepaid, the Fiscal Agent is required to select the Certificates or any given portion thereof to be prepaid by lot in such manner as the Fiscal Agent will determine.

*Notice of Prepayment.* Notice of prepayment is required to be given by the Fiscal Agent not less than thirty (30) nor more than sixty (60) days prior to the Prepayment Date, to the State Treasurer, the Owner of each Certificate affected at the address shown on the Certificate Register on the date such notice is mailed, the Securities Depositories and one or more Information Services. Each notice of prepayment must state the date of such notice, the date of execution and delivery of the Certificates, the Prepayment Date, the Prepayment Prices, the place or places of prepayment (including the name and appropriate address or addresses of the Fiscal Agent), the CUSIP number of the Certificates being prepaid, the source of the funds to be used for such prepayment, the Principal Component due evidenced and represented by the Certificates, the distinctive certificate numbers of the Certificates or portions thereof to be prepaid, the rate or rates of interest evidenced and represented by the Certificates to be prepaid, and the Principal Payment Dates of the Certificates to be prepaid. The notice also must state that the interest evidenced and represented by the Certificates designated for prepayment will cease to accrue from and after such Prepayment Date, and that on said date there will become due and payable with respect to each of the prepaid Certificates the Prepayment Price of the Certificate to be prepaid, and interest, if any, accrued thereon to the Prepayment Date. Such notice will require that such Certificates be then surrendered at the address or addresses of the Fiscal Agent specified in the prepayment notice.

With respect to any notice of optional prepayment of Certificates unless, upon the giving of such notice, such Certificates are deemed to have been paid within the meaning of the Trust Agreement or unless the Fiscal Agent has cash or Government Obligations sufficient to pay Prepayment Price, such notice may state that such prepayment will be conditional upon the receipt by the Fiscal Agent on or prior to the date fixed for such prepayment of moneys sufficient to pay the Prepayment Price due evidenced and represented by such Certificates and interest payable with respect thereto, and that if such moneys has not been so received said notice will be of no force and effect and the Fiscal Agent will not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment will not be made and the Fiscal Agent is required within a reasonable time thereafter to give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received.

*Partial Prepayment.* Upon surrender of any Certificate prepaid in part only, the Fiscal Agent is required to provide a replacement Certificate or Certificates evidencing and representing a principal amount equal to the portion of the Principal Component evidenced and represented by such Certificate not prepaid, and deliver it to the Owner thereof. The Certificate so surrendered is required to be cancelled by the Fiscal Agent.

### Book-Entry System

The Certificates initially will be delivered under a book-entry only system, registered in the name of Cede & Co., as nominee of DTC, acting as depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers will not receive certificates representing their beneficial ownership interests in the Certificates. For information about the DTC book-entry system, see Appendix F—Book-Entry System.

### Defeasance

If money and/or certain types of securities maturing at such times and bearing interest to be earned thereon in amounts sufficient to prepay the principal and interest evidenced and represented by any or all of the Certificates in accordance with their terms and the terms of the Trust Agreement and the Lease are set aside irrevocably in a special trust account to effect such prepayment and are pledged for such purpose, then no further payments are required to be made to pay or secure the payment of such principal and interest evidenced and represented by such Certificates, and such Certificates will be deemed thereafter not to be outstanding. See Appendix B—Definitions And Summary of Certain Legal Documents.

## THE PROJECT

Proceeds of the Certificates will be used to pay for construction of a 46,900-square-foot archives center on the campus of the University in Cheney, Washington and to pay costs of issuance. The records center will be used by the State Agency for the purpose of records storage and archiving facilities for local governments in eastern Washington and other state agencies. The project is located on land leased from the University under a 99-year lease entered into in 2002, and the University is serving as construction manager for the project.

Site work for the project was started in summer 2002 and is expected to be completed in January 2003. Construction bids were received on October 31, 2002, and the construction contract was entered into on November 13, 2002. The contractor is expected to begin construction in January 2003. Construction is expected to take approximately 12 months, and be completed in February 2004.

## OFFICE OF THE SECRETARY OF STATE

The Division of Archives and Records Management, Office of the Secretary of State, operates as a public trust under chapter 40.14 RCW, Laws of Washington 1957. In fulfilling its statutory duty to appraise, collect, protect, and make available government records, the State Archives centralizes and preserves the historically significant records of the state, and assures their availability for reference and research. It provides both temporary and permanent housing and protection for a variety of record formats under the Division's custody, including paper documentation, security microfilm, optical disks, magnetic tapes, and other forms of electronic media. In addition, the Division has developed a system of regional branches located across the state.

## SOURCES AND USES OF FUNDS

The following table shows the sources and uses of funds, less accrued interest:

| | |
|---|---|
| **Sources** | |
| Principal Component of Certificates | $12,870,000 |
| Net Reoffering Premium | 8,828 |
| **Total Sources** | $12,878,828 |
| **Uses** | |
| Deposit to Project Fund | $12,577,508 |
| Estimated Costs of Issuance, Bond Insurance Premium and Underwriting | 301,320 |
| **Total Uses** | $12,878,828 |

## SOURCES OF PAYMENT AND SECURITY FOR THE CERTIFICATES

### Base Rent Payments

The Certificates will evidence and represent undivided proportionate interests in the Base Rent Payments payable by the state on behalf of the State Agency pursuant to the Lease. Pursuant to the Lease, WFOA will sublease the property to the state and in consideration thereof the state is required to make Base Rent Payments to the Fiscal Agent, as assignee of WFOA, during the term of the Lease. Base Rent Payments are composed of Principal Components and Interest Components represented by the Certificates. Base Rent Payments are due on each Certificate Payment Date. Base Rent Payments are payable solely from appropriated funds of the State Agency.

The Lease (including any right of WFOA to receive Base Rent Payments thereunder) has been assigned to the Fiscal Agent pursuant to the Assignment, dated as of December 1, 2002, by and among the state, WFOA and the Fiscal Agent.

The obligation of the state to make Base Rent Payments is subject to appropriation from time to time by the State Legislature and does not constitute a debt of the state or the State Agency within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the state or the State Agency has levied taxes or pledged any form of taxation. If at any time during the fiscal period the Governor projects a cash deficit, the Governor, by Executive Order, is authorized to make across-the-board reductions by fund source in allotments in order to prevent a cash deficit, unless the State Legislature has directed the liquidation of the cash deficit over one or more fiscal periods. The Governor may place any portion of an across-the-board reduction in reserve status and remove these amounts from reserve status if the across-the-board reduction is modified.

Upon a failure of the Legislature to appropriate or Executive Order reduction, the State Agency is permitted to terminate the Lease as provided therein. See "Permitted Termination Events" below under this caption.

PAYMENTS BY THE STATE AND THE STATE AGENCY OF BASE RENT PAYMENTS ARE SUBJECT TO APPROPRIATION BY THE STATE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR AND MAY BE TERMINATED AS PROVIDED IN THE LEASE.

**Permitted Termination Events; Remedies**

Under the Lease, each of the following constitute a "Permitted Termination Event":

(i) the State Legislature elects not to appropriate sufficient funds within any biennial budget for the purpose of paying the Base Rent Payments due thereunder during the next occurring biennium; or

(ii) The Governor of the state issues an Executive Order mandating an emergency reduction in state funding; *provided*, that the State Agency delivers written notice thereof to the State Treasurer as required by the Lease.

If, as of five (5) Business Days following (i) the enactment of each biennial budget by the State Legislature, or (ii) an Executive Order reduction in funding, the State Agency determines as a result of such legislation or Executive Order that sufficient funds will not be available to make its scheduled Base Rent Payments for the Property in the next occurring biennium or upon a reduction in funding in the manner as set forth above, the State Agency is required to deliver not less than 45 days' prior written notice to the State Treasurer, which notice must describe the Permitted Termination Event, state the Permitted Termination Date and state that the State Agency has determined that such Permitted Termination Event will result in the cancellation of the Lease.

Upon the occurrence of a Permitted Termination Event, the State Treasurer is required to immediately deliver written notice thereof to WFOA, which notice is required to identify the election not to appropriate the necessary funds or the Executive Order reduction as the reason for cancellation thereof. The State Treasurer must, if practicable, request a supplemental appropriation in the event that an appropriation has not been made to the State Agency. In the event of an Executive Order reduction, the State Treasurer is required to determine whether or not the Property and the obligations of the State Agency under the Lease may be transferred to the office of the State Treasurer or to another agency or department of the state authorized under the Act to enter into financing agreements. No Permitted Termination Event following an Executive Order reduction in funding will be effective unless or until the State Treasurer has determined that neither the State Treasurer nor any other agency or department of the state authorized under the Act to enter into financing agreements is willing and able to assume the rights and obligations of the State Agency under the Lease.

Upon the occurrence and effectiveness of a Permitted Termination Event, the State Treasurer and the State Agency must vacate said Property at the beginning of the period for which funds have not been appropriated or for which funding has been reduced and deliver possession and control thereof to WFOA for the remaining term of the Site Lease and thereupon be released of their obligations to make payments in an amount equal to the then unpaid balance of Base Rent Payments with respect to the Property; *provided*, that the state and the State Agency deliver the Property in good repair, working order and condition, ordinary wear and tear excepted, as of the end of the last month for which funding has been provided, or the end of the last month for which funding is available in the event of an Executive Order reduction in funding, and written notice is provided by the State Agency directly to the State Treasurer as set forth above. Upon the occurrence and effectiveness of a Permitted Termination Event, WFOA would be entitled to retain all sums theretofore transmitted to WFOA (or to the Fiscal Agent as assignee of WFOA) by or on behalf of the State Treasurer or the State Agency for the benefit of the Owners of the Certificates.

The occurrence of a Permitted Termination Event does not constitute an Event of Default and the remedies described above relating to the return of the Property are the sole remedies available to the State Treasurer and WFOA upon such occurrence. If the State Legislature provides a supplemental appropriation or the Executive Order is withdrawn prior to the expiration of the notice period specified above and the State Treasurer or WFOA has not yet re-let or otherwise disposed of the Property, the State Agency and the State Treasurer may, by written notice to WFOA, revoke the notice of termination and continue their obligations under the Lease.

### Limited Obligations of the State and the State Agency

THE CERTIFICATES DO NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE STATE OF WASHINGTON OR OF THE STATE AGENCY, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE OR BY THE STATE AGENCY, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR OF THE STATE AGENCY, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE CERTIFICATES REPRESENT AN UNDIVIDED PROPORTIONATE INTEREST IN BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE. THE BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE ARE PAYABLE SOLELY FROM THE SOURCES IDENTIFIED HEREIN, AND ARE SUBJECT TO TERMINATION UPON THE OCCURRENCE OF CERTAIN EVENTS SPECIFIED IN THE LEASE. NOTHING IN THE CERTIFICATES OR THE LEASE SHOULD BE CONSIDERED OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE OR THE STATE AGENCY TO MAKE THE PAYMENTS DUE.

### The Land Lease

Pursuant to the Land Lease, the State Agency has leased the Site from the University for a term, not subject to termination, of 99 years, commencing February 1, 2002, and ending January 31, 2101. Pursuant to the Land Lease, the University has consented to the sublease of the Site pursuant to the Site Lease and the Lease and the assignment thereof to the Fiscal Agent for the purpose of financing the Project with proceeds of the Certificates.

### Substitution and Release of Property

Under the Lease, the State Agency is permitted to substitute or release all or a portion of the leased Property. See Appendix A—Definitions and Summary of Certain Legal Documents.

### Rent Payments Not Subject to Abatement

The Base Rent Payments payable by the state pursuant to the Lease are *not* subject to abatement upon damage to or destruction of the Project, nor are such payments otherwise subject to diminution, reduction, postponement, counterclaim, defense, or set-off as a result of any dispute, claim or right of action by, against or among the state, WFOA, the Fiscal Agent, the State Agency, and/or any other Person, or for any other reason.

### Acceleration

The Certificates may be subject to acceleration upon the occurrence of an Event of Default under the Lease.

### Limitation on Exercise of Remedies

Upon the occurrence of an Event of Default under the Lease, the Fiscal Agent, as assignee of WFOA, may pursue any available legal or equitable remedy, which may include suing for rent as the same becomes due, re-entering and re-letting the Project for the benefit of the owners of the Certificates, and terminating the Lease, as appropriate, and accelerating the unpaid rent or suing for damages.

However, the remedies provided in the Lease and/or the Trust Agreement may be unenforceable under certain circumstances due to the application of principles of equity, or due to state or federal laws relating to bankruptcy, moratorium, reorganization, and creditors' rights generally and to limitations on remedies against the state and its agencies under the laws of the State of Washington. Moreover, due to the essential governmental nature of the Project or portions thereof, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect thereto. In addition, the enforcement of remedies provided in the Lease and the Trust Agreement could prove both expensive and time consuming. In any event, although the Fiscal Agent has the right, upon the occurrence of an Event of Default, to re-enter and re-let the Project during the term of the Site Lease, it is unknown whether any such re-entry, re-letting or other disposition would result in the collection of amounts sufficient to make the Base Rent Payments. Moreover, the Fiscal Agent would not be obligated to re-let the Project in a manner so as to preserve the tax-exempt nature of interest represented by the Certificates.

**Additional Certificates**

The State Agency may make additions or improvements to or alterations of any Project so long as such additional improvements are constructed and installed in accordance with applicable laws and regulations and do not diminish the value or usefulness of the Property.

The State Agency may enter into Additional State Agency Financing Leases with WFOA to finance all or any portion of the costs of such additions or improvements so long as such leases do not reduce the obligation of the State to make Base Rent Payments under the Lease and will not, in the opinion of Certificate Counsel, adversely affect the tax-exempt status of the Interest Component of Base Rent Payments evidenced and represented by the Certificates. The owners of certificates of participation in any Additional State Agency Financing Lease will be secured proportionally, without preference, with the Owners with respect to any payments received by the Fiscal Agent in regards to the Property following the occurrence of an Event of Default or Permitted Termination Event.

**Payment History**

The principal and interest represented by certificates of participation in lease or other payment obligations that are payable by the state have always been paid when due. The state has never failed to appropriate funds to meet its lease, installment sale or other payment obligations with respect to outstanding certificates of participation therein.

## WASHINGTON FINANCE OFFICERS ASSOCIATION

The Washington Finance Officers Association is a Washington nonprofit corporation the members of which consist of state and local government finance officials in the State of Washington. WFOA was formed primarily for educational purposes, including promoting the improvement of government finance in the State of Washington. WFOA acts as the nominal purchaser, seller, lessee, and sublessor in connection with various certificate of participation financings undertaken by the State Treasurer for the benefit of state and local government agencies. In connection with the Certificates, WFOA is acting as the lessee under the Site Lease, and as lessor under the Lease. As of the closing, WFOA will irrevocably assign and transfer all of its right, title and interest in and to the Site Lease and the Lease to the Fiscal Agent, and will thereafter have no rights or interest with respect to the Certificates, the Project, the Lease, or the Site Lease. WFOA has not participated in the preparation of this Official Statement, and is not responsible for any of the statements or information herein.

## INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the state have the ability to initiate legislation and to modify, approve and reject existing statutes through the powers of initiative and referendum. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiatives) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The State Constitution may not be amended by initiative or referendum.

### Initiative 776

Initiative Measure No. 776 ("I-776") was approved by voters on November 5, 2002. As written, I-776 would reduce combined license tab fees for light trucks from between $37 and $55 per year, depending upon vehicle weight, to $30 per year. I-776 would also repeal certain government-imposed excise taxes and fees levied on motor vehicles, including, among others, (i) local option vehicle license fees of up to $15 per year imposed by counties or qualified cities or towns with voter approval, and (ii) voter-approved high capacity transportation motor vehicle excise taxes ("high capacity transportation MVET") imposed by regional transit authorities (including the high capacity transportation MVET of 0.3 percent of vehicle value currently imposed by Sound Transit). While the precise impact of I-776 cannot be predicted, the state does not expect the provisions of I-776 to affect adversely its ability to make payments on the Certificates in the amounts and at the times required under the Master Financing Contract.

### Initiative 790

Initiative Measure No. 790 ("I-790") was approved by voters on November 5, 2002. As written, I-790 would change the Law Enforcement Officers' and Firefighters' Retirement System Plan 2 ("LEOFF 2") by transferring program administration authority to an 11-member rule-making board to be appointed by the Governor ("LEOFF 2 Board") and would institute three levels of benefits for members, which may increase levels of contribution by local government employers and the state to the LEOFF 2 retirement system. The LEOFF 2 Board can act to (i) increase statutory contribution rates of local government employers and the state up to six percent and four percent, respectively, unless the State Legislature, in its next session, passes a bill to repeal the LEOFF 2 Board action to authorize such increase, or (ii) increase statutory contribution rates of local government employers and the state beyond six percent and four percent, respectively, with approval of the State Legislature. While the precise impact of I-776 cannot be predicted, the state does not expect the provisions of I-790 to affect adversely its ability to make payments on the Certificates in the amounts and at the times required under the Master Financing Contract.

### Future Initiative Legislation

Other tax and fee initiative measures may be filed, but it cannot be predicted whether any such initiatives might gain sufficient signatures to qualify for submission to the Legislature and/or the voters, or, if submitted, would ultimately be approved.

## LITIGATION

There is not currently pending litigation restraining or enjoining the sale, execution or delivery of the Certificates or in any other manner affecting the validity of the Certificates, the Trust Agreement, the Site Lease, the Lease, or the Assignment, or of the proceedings or authority pursuant to which they are to be executed and delivered.

The state and its agencies are parties to numerous routine legal proceedings which normally occur in governmental operations. At any given point in time, there may be numerous lawsuits involving state agencies which could impact expenditures. There is a recurring volume of tort and other claims for compensation and damages against the state and some specific state agencies, including the Departments of Transportation, Corrections, Social and Health Services, and the University of Washington. There are risk management funds reserved by the state for these claims and insurance is available to pay a portion of damages for certain types of claims. There has been a trend over the past two years of higher jury verdicts on certain types of damage claims. The collective impact of these claims, however, is not likely to have a material impact on state revenues or expenditures.

During the reporting period, there were a number of lawsuits challenging the management and administration of state programs. Some lawsuits seek an expansion of program social services for certain constituents. In *Allen v. Western State Hospital*, for instance, the Washington Protection and Advocacy System has filed a class action lawsuit on behalf of patients with developmental disabilities at Western State Hospital alleging that the state programs are inadequate and the state has failed to provide community-based services when appropriate. The trial has been stayed pending further review of whether program changes and funding requests to the State Legislature by the Department of Social and Health Services will resolve claims. These lawsuits, however, are not expected to have a material impact on state revenues or expenditures. If relief is granted, there would be a need to reprioritize agency program expenditures in the budget process to provide program support for individuals in these classes.

There is a class action lawsuit challenging the Department of Social and Health Services' authority to use Social Security benefits received on behalf of a foster child when it acts as a representative payee and applies the benefits toward the costs of the child's foster care. *Keffeler v. State.* The Department currently receives $9,000,000 per year in Social Security monies that it uses for this purpose. This is consistent with the practice in other states. The lawsuit sought a declaratory ruling that the state may not obtain and use such funds for foster care services, along with a refund of funds used in the past. The State Supreme Court has determined that the Department may not use the Social Security funds in this manner. The United States Supreme Court has accepted the state's petition for *certiorari* and argument has been set for December 2002. If relief is affirmed, there would be a reduction of revenue to the state in the future, resulting in a need to seek additional funding or reprioritize use of existing funding. There also would be a follow-up proceeding to determine to what extent there should be refunds. It is difficult to estimate with any certainty the potential amount of refunds which might be recovered.

Over the past ten years, the state has reported on the recurring litigation challenging the state's business and occupation tax structure (referred to as the interstate manufacturers litigation). This litigation represents the claims of approximately 115 corporate taxpayers for business and occupation tax refunds from periods from 1980 to the present. In the most recent round of this litigation, the United States Supreme Court denied certiorari review of an April 1999 decision by the Washington State Supreme Court. *W.R. Grace & Co. - Conn. and Chrysler Motors Corporation v. State of Washington, Department of Rev., and Buffelen Woodworking Co., et al. v. State of Washington, Department of Rev.* The State Supreme Court denied claims for a refund except to the extent the taxpayers could demonstrate entitlement to credits against their Washington State tax liability measured by gross receipt of taxes paid to other taxing jurisdictions outside of the state. The cases were remanded to Thurston County Superior Court, and the taxpayers have waived refunds measured by tax credits. The taxpayers continue to use other refund claims to try to re-present the issue to the United States Supreme Court. Sizeable refund awards, however, are considered remote.

In the past there has been periodic litigation involving Medicaid reimbursement issues. Over the last four years, there has been an increase in the number and types of claims. Currently, there are three lawsuits which raise issues such as eligibility for Medicaid benefits and the proper formula for cost reimbursement. In the previous cases, these types of claims have been limited and focused by courts through motion practice and eventually resolved through settlement agreements and legislative appropriation. It is difficult to predict whether the current cases might result in any significant amount of reimbursement under the theories presented. In *Sacred Heart Medical Center v. DSHS* for instance, the Medicaid providers allege that they provided medical care to numerous clients while they were terminated from Medicaid because their Medicaid eligibility had been improperly linked to eligibility for Temporary Assistance to Needy Families. The providers claim breach of contract and seek reimbursement for the care provided to these clients. Some of the plaintiffs who provided mental health services also allege that the improperly terminated individuals should have been included in the state's formula for captivated payments to the Regional Support Networks. Discovery has not been completed, but the damage claim is likely to be in the millions of dollars. If substantial costs are recovered in any of those proceedings, there would be a need to reprioritize agency program expenditures in the budget process to cover any additional costs.

## APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale by the state of the Certificates are subject to the approval of legality by Foster Pepper & Shefelman PLLC, Seattle, Washington, Certificate Counsel, and certain other conditions. The proposed form of the legal opinion of Certificate Counsel is set forth in Appendix C hereto.

Certificate Counsel will deliver a legal opinion to the state to the effect that the statements in the section of the Official Statement entitled "The Certificates" and "Sources of Payment and Security for the Certificates," but only insofar as such statements summarize or describe the terms of the Certificates, the Trust Agreement, the Lease, and the Assignment, are accurate in all material aspects. Certificate Counsel does not assume any responsibility or liability for the accuracy or completeness of this Official Statement. The payment of compensation to Certificate Counsel is contingent upon the successful delivery of the Certificates to, and full payment for the Certificates by, the successful bidders.

## TAX MATTERS

### Tax Exemption of Certificates

*Exclusion from Gross Income*. In the opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Certificates, interest evidenced and represented by the Certificates will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

*Continuing Requirements*. The state is required to comply with certain requirements of the Code after the date of execution and delivery of the Certificates in order to maintain the exclusion of the interest evidenced and represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the facilities financed with Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Certificates. The state has covenanted in the Master Contract to comply with those requirements, but if the state fails to comply with those requirements, interest evidenced and represented by the Certificates could become taxable retroactive to the date of execution and delivery of the Certificates.

*Corporate Alternative Minimum Tax*. While interest evidenced and represented by the Certificates also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest evidenced and represented by the Certificates, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20 percent minimum tax.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for a small business corporation that had average gross receipts of less than $5 million for the three-year period beginning after December 31, 1994, and such a small business corporation will continue to be exempt from the corporate alternative minimum tax so long as its average gross receipts do not exceed $7.5 million.

*Tax on Certain Passive Investment Income of S Corporations*. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Certificates, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

*Foreign Branch Profits Tax*. Interest on the Certificates may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Certificates are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

**Certain Other Federal Tax Consequences**

*Certificates <u>Not</u> "Qualified Tax-Exempt Obligations" for Financial Institutions*. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The state is a governmental unit that, together with its subordinate entities, reasonably anticipates issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has *not* designated the Certificates as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Certificates is deductible for federal income tax purposes.

*Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies*. Under Section 832 of the Code, interest evidenced and represented by the Certificates received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

*Effect on Certain Social Security and Retirement Benefits*. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest evidenced and represented by the Certificates into account in determining gross income.

*Other Possible Federal Tax Consequences*. Receipt of interest evidenced and represented by the Certificates may have other federal tax consequences as to which prospective purchasers of the Certificates may wish to consult their own tax advisors.

*Original Issue Discount.* The Certificates maturing on July 1, 2012, through July 1, 2018, inclusive, have been sold at prices reflecting original issue discount ("Discount Certificates"). Under existing law, the original issue discount in the selling price of each Discount Certificate, to the extent properly allocable to each owner of such Discount Certificate, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Certificate over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Certificates of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Certificate during any accrual period generally equals (i) the issue price of such Discount Certificate plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Certificate (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Certificate during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income federal income tax purposes, and will increase the owner's tax basis in such Discount Certificate. Any gain realized by an owner from a sale, exchange, payment or redemption of a Discount Certificate will be treated as gain from the sale or exchange of such Discount Certificate.

The portion of original issue discount that accrues in each year to an owner of a Discount Certificate may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such Discount Certificate will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Certificates in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Certificates were sold to the public, or who do not purchase Discount Certificates in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Certificates. Owners of Discount Certificates who sell or otherwise dispose of such Discount Certificates prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Certificates have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Certificates. Owners of Discount Certificates also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Certificates.

*Original Issue Premium.* The Certificates maturing on July 1, 2003, through July 1, 2007, inclusive, and on July 1, 2010, and July 1, 2011, have been sold at prices reflecting original issue premium ("Premium Certificates"). An amount equal to the excess of the purchase price of a Premium Certificate over its stated redemption price at maturity constitutes premium on such Premium Certificate. A purchaser of a Premium Certificate must amortize any premium over such Premium Certificate's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Certificate will offset a like amount of qualified stated interest on such Premium Certificate allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Certificate is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Certificate prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Certificates, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Certificates.

## CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), the State Treasurer, on behalf of the Committee, has agreed in the Lease to enter into a written undertaking in the form of a Disclosure Agreement for the benefit of the holders of the Certificates (the "Undertaking"), the terms of which are summarized as follows.

### Annual Disclosure Report

The state covenants and agrees that not later than seven months after the end of each fiscal year (the "Submission Date"), commencing January 31, 2003, for the fiscal year ending June 30, 2002, the state will provide or cause to be provided to each then existing nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the State of Washington, if one is created (the "SID"), an annual report (the "Annual Disclosure Report"), which will consist of the following:

(i) audited financial statements of the state prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, as such principles may be changed from time to time, except that if the audited financial statements are not available by the Submission Date, the Annual Disclosure Report will contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the state, and the state's audited financial statements will be filed in the same manner as the Annual Disclosure Report when and if they become available;

(ii) financial and operating data for the state as set forth in Appendix A to this Official Statement;

(iii) a summary of the state debt structure by revenue pledge; and

(iv) a narrative explanation of any reasons for any amendments to the Undertaking made during the previous fiscal year and the effect of such amendments on the Annual Disclosure Report being provided.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the state, or of any related entity, that have been submitted to each of the NRMSIRs and the SID, if any, or to the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The state will identify clearly each document so included by reference.

If the state's fiscal year changes, the state may adjust the submission date by giving notice of such change in the same manner as notice is to be given of the occurrence of a Material Event.

**Material Events**

The state agrees to provide or cause to be provided to the SID, if any, and to each NRMSIR or to the MSRB timely notice of the occurrence of any of the following events with respect to the Certificates, if material (the "Material Events"):

(i) principal and interest payment delinquencies;

(ii) nonpayment-related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the Certificates;

(vii) modifications to rights of holders of the Certificates;

(viii) optional, contingent or unscheduled Certificate calls (other than scheduled mandatory sinking fund prepayments for which notice is given pursuant to Exchange Act Release 34-23856);

(ix) defeasances;

(x) release, substitution or sale of property securing the repayment of the Certificates; and

(xi) rating changes.

There is no debt service reserve fund securing the Certificates, and there are no third party credit or liquidity facilities provided to pay or secure the payment of the Certificates.

In addition, the state agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of any failure to provide the Annual Disclosure Report on or prior to the Submission Date.

**Termination of Undertaking**

The state's obligations under the Undertaking will terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. The Undertaking, or any provision thereof, will be null and void if the state:

(i) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the Undertaking, or any such provision, have been repealed retroactively or otherwise do not apply to the Certificates; and

(ii) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of the Undertaking.

**Amendment of Undertaking**

The state may amend the Undertaking without the consent of any holder of any Certificate or any other person or entity under the circumstances and in the manner permitted by the Rule. The State Treasurer will give notice to each NRMSIR or the MSRB and the SID, if any, of the substance of any such amendment, including a brief statement of the reasons therefor.

If the amendment changes the type of Annual Disclosure Report to be provided, the Annual Disclosure Report containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided (or in the case of a change of accounting principles, the presentation of such information). In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements:

(i) notice of such change will be given in the same manner as for a Material Event under Section 4, and

(ii) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**Remedies; Beneficiaries**

The right to enforce the provisions of the Undertaking will be limited to a right to obtain specific enforcement of the state's obligations thereunder, and any failure by the state to comply with the provisions of the Undertaking will not be a default with respect to the Certificates. The Undertaking inures to the benefit of the State Treasurer and any holder of the Certificates, and does not inure to the benefit of or create any rights in any other person.

**Additional Information**

Nothing in the Undertaking will be deemed to prevent the state from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Material Event, in addition to that which is required by the Undertaking. If the state chooses to include any information in any Annual Disclosure Report or notice of the occurrence of a Material Event in addition to that specifically required by the Undertaking, the state will have no obligation to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a Material Event.

**Prior Compliance**

The state has complied in all material respects with all prior written undertakings under the Rule.

## OTHER CERTIFICATE INFORMATION

**The MBIA Insurance Corporation Insurance Policy**

*The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix G for a specimen of MBIA's policy.*

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the state to the Fiscal Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Certificates as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Certificates pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Certificates. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Certificates upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Certificates resulting from the insolvency, negligence or any other act or omission of the Fiscal Agent or any other paying agent for the Certificates.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Fiscal Agent or any owner of a Certificate the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Certificates or presentment of such other proof of ownership of the Certificates, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Certificates as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Certificates in any legal proceeding related to payment of insured amounts on the Certificates, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Fiscal Agent payment of the insured amounts due on such Certificates, less any amount held by the Fiscal Agent for the payment of such insured amounts and legally available therefor.

*MBIA.* MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth in this section. Additionally, MBIA makes no representation regarding the Certificates or the advisability of investing in the Certificates.

The Financial Guarantee Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

*MBIA Information.* The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

(i) The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and

(ii) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Certificates offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002), are available (i) over the Internet at the SEC's web site at *http://www.sec.gov*; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of $8.5 billion (audited), total liabilities of $5.6 billion (audited), and total capital and surplus of $2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2002, MBIA had admitted assets of $9.0 billion (unaudited), total liabilities of $5.9 billion (unaudited), and total capital and surplus of $3.1 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

*Financial Strength Ratings of MBIA.* Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch, Inc. rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Certificates, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Certificates.

MBIA does not guaranty the market price of the Certificates nor does it guaranty that the ratings on the Certificates will not be revised or withdrawn.

**Rating**

The Certificates have been rated "Aaa" (underlying "Aa2") by Moody's Investors Service ("Moody's"), as noted on the cover of this Official Statement, based on the assumption that the Financial Guaranty Insurance Policy will be issued by MBIA. The state has furnished certain information and materials to Moody's regarding the Certificates and the state. Such rating reflects only the view of such rating agency and is not a recommendation to buy, sell or hold the Certificates. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. An explanation of the significance of such rating may be obtained from Moody's Investors Service, located at 99 Church Street, New York, New York 10007-2296.

There is no assurance that such rating will be maintained for any given period of time or that it may not be raised, lowered, suspended, or withdrawn entirely by the rating agency if, in its judgment, circumstances warrant. Any such downward change in or suspension or withdrawal of such rating may have an adverse effect on the market price of the Certificates. The state undertakes no responsibility to oppose any such change or withdrawal.

**Financial Advisor**

Susan D. Musselman, Inc. has served as financial advisor to the state relative to the preparation of the Certificates for sale, timing of the sale and other factors relating to the Certificates. The financial advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information provided relative to the Certificates. Susan D. Musselman, Inc. makes no guaranty, warranty or other representation on any matter related to the information contained in the Official Statement. The financial advisor is an independent financial advisory firm and is not engaged in the business of underwriting, marketing, trading, or distributing municipal securities.

The payment of compensation to the financial advisor is contingent upon the successful delivery of the Certificates to, and full payment for the Certificates by, the underwriter.

**Underwriter of the Certificates**

The Certificates are being purchased by Salomon Smith Barney (the "Underwriter") at a price of $12,667,275.21, plus accrued interest. The Underwriter has represented that the Certificates will be reoffered at the prices or yields set forth on page i of this Official Statement. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

**Official Statement**

Upon delivery of the Certificates to the successful bidder, the State Finance Committee by its Chairman, the State Treasurer, or his authorized representative, will approve or have approved the Official Statement, and also will deliver a certificate to the effect that the Preliminary Official Statement did not as of its date, and the Official Statement does not as of the date of such delivery, contain any untrue statement of a material fact required to be stated therein or necessary to make the statements therein, in the light of circumstances under which they were made, not misleading, and no event affecting the Certificates has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect (except that in no event will any representation be made with respect to information herein regarding DTC and its book-entry only system).

Excerpts from the state's 2001 Comprehensive Annual Financial Report ("CAFR") are attached as Appendix D. Copies of the state's entire 2001 CAFR are available upon request from the Office of the State Treasurer.

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**APPENDIX A**

**GENERAL AND ECONOMIC INFORMATION**

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## INTRODUCTION

### State Overview

The state of Washington (the "state") is located in the northwest corner of the contiguous 48 states and is the 20th largest state by land area and the 15th largest state by population. Based on the U.S. Census Bureau's 2000 Census, the state's resident population is 5,894,121, an increase of 21.1 percent over 1990.

The state capital is Olympia, and its largest city is Seattle. Seattle is situated on Puget Sound and is part of the international trade, manufacturing, high technology, and business service corridor that extends from Everett to Tacoma. The Pacific Coast-Puget Sound region of the state includes approximately 75 percent of the population, the bulk of industrial activity and most of the state's forests, which are important to the timber and paper industries. The balance of the state includes agricultural areas primarily devoted to grain, apple and other fruit orchards and dairy operations.

In recent years the state's economy has diversified, with employment in the trade and service sectors representing an increasing percentage of total employment relative to the manufacturing sector.

For an assessment of the current economic and budgetary outlook of the state, including certain changes in forecast assumptions made for purposes of the November 2002 state revenue forecast for the 2001-03 Biennia, see "Outlook for the 2001-03 and 2003-05 Biennia." For certain economic and demographic information with respect to the state, see "Economic Information."

### State Finance Committee

The State Finance Committee (the "Committee") is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. The Office of the State Treasurer provides administrative support to the Committee. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of official duties in accordance with prescribed policies of the Committee.

## REVENUES, EXPENDITURES AND FISCAL CONTROLS

### Revenues

The state's tax revenues are comprised primarily of excise and *ad valorem* taxes. By constitutional provision, the aggregate of all regular (nonvoted) tax levies upon real and personal property by the state and local taxing districts may not exceed one percent of the true and fair value of such property. Excess levies are subject to voter approval.

*Excise Taxes.* Certain select sales and gross receipts taxes accounted for approximately 52.9 percent of total state tax revenues for the fiscal year ending June 30, 2001.

The retail sales tax and its companion use tax represent the largest source of state tax revenue, accounting for 49.9 percent of total collections. The retail sales and use tax is applied to a broad base of tangible personal property and selected services purchased by consumers, including construction (labor and materials), some machinery and supplies used by businesses, services and repair of real and personal property, and other transactions not taxed in many other states. Among the various items not subject to this tax are most personal services, motor vehicle fuel, food for off-premises consumption, trade-ins, manufacturing machinery, and purchases for resale. The current state retail sales and use tax rate is 6.5 percent.

Business and occupation tax collections represented approximately 16.9 percent of total state taxes for the fiscal year ending June 2001. The business and occupation tax is applied to gross receipts of all business activities conducted within the state. Business and occupation tax rates include a principal rate of 0.484 percent of gross income for manufacturing and wholesaling businesses. Retail firms pay 0.471 percent, and services pay 1.5 percent.

The motor vehicle fuel tax represented approximately 6.1 percent of all state taxes for Fiscal Year 2001. The current tax rate is 23 cents per gallon.

*Property Taxes.* The state's property tax is levied against the true and fair value of property as determined by the Department of Revenue. The property tax for local taxing districts is levied against the assessed value as determined by county assessors. For property taxes payable in 2001, assessed value averaged 89.9 percent of fair market value.

The state property tax levy represented approximately 11.4 percent of all state tax revenues for Fiscal Year 2001. The state property tax levy is limited to the lesser of 101 percent or 100 percent plus the percentage change in inflation (as measured by the Implicit Price Deflator for Personal Consumption (the "IPD")) of the dollar amount of property taxes levied in the highest of the three most recent years plus an additional dollar amount calculated by multiplying the increase in assessed value resulting from new construction and improvements by the property tax rate for the preceding year. The state levy rate for taxes due in 2001 is $2.71 per $1,000 of true and fair property value.

By statute, all of the state's property tax levy is dedicated to the support of public schools.

*Income Tax.* The State Constitution, as interpreted by the State Supreme Court, prohibits the imposition of a graduated tax on net income.

*Tax Collection*. Four state agencies are responsible for administering the major state taxes: the Department of Revenue, the Department of Licensing, the Liquor Control Board, and the Office of the Insurance Commissioner. The State Treasurer receives the revenues from the collecting agencies and deposits and distributes the funds as required by law. Almost all state agencies collect some form of revenue. For state budget purposes, however, the definition of tax generally excludes such revenue sources as license fees, liquor profits, lottery receipts, charges for service such as tuition, federal grants and revenue sharing, and proceeds of bond issues.

*State Expenditure and Revenue Limitation—Initiative 601*. Initiative 601, passed by the voters in November 1993, places limits on state taxation and General Fund-State government expenditures and sets forth a series of guidelines for limiting revenue and expenditure increases and stabilizing long-range budget planning.

Under Initiative 601, the state generally is prohibited from increasing expenditures from the General Fund-State during any fiscal year by more than the fiscal growth factor, which is calculated annually and is defined as the average of the sum of inflation and population change for each of the three prior fiscal years. The inflation index used for the computation of the fiscal growth factor is the IPD, which is determined from the same data used to establish the U.S. gross national product. This growth factor is used to determine a state spending limit for programs and expenditures supported by the General Fund-State. The spending limit became operational on July 1, 1995, based on the population and inflation growth factor determined in November 1994, which is based upon data accumulated for Fiscal Years 1992, 1993 and 1994. Annual adjustments to the expenditure limit are made by the Expenditure Limit Committee ("ELC"), which is comprised of members from the Office of Financial Management ("OFM"), legislative fiscal committees and the Office of the Attorney General. The annual adjustment to the limit is based on the previous year's actual General Fund-State expenditure and changes in population and inflation growth. The fiscal growth factors for the 1997-99 Biennium were 4.05 percent for Fiscal Year 1998 and 4.18 percent for Fiscal Year 1999. The fiscal growth factors for the 1999-01 Biennium are 3.32 percent for Fiscal Year 2000 and 2.87 percent for Fiscal Year 2001. The fiscal growth factors for the 2001-03 Biennium are 2.79 percent for

Fiscal Year 2002 and 3.29 percent for Fiscal Year 2003. However, statutory changes to the expenditure limit adopted in the 2000 Legislative Session make it possible for the effective rate of increase in expenditures to be higher than the fiscal growth factors (Engrossed House Bill 3169 ("EHB 3169")).

Initiative 601 also directs the ELC to make downward adjustments in the expenditure limit for costs of any state program or function that is shifted from the General Fund-State to another funding source, or for moneys that are transferred from the General Fund-State to another fund or account. In the event costs of a federal, state or local government program are transferred to or from the state by court order or legislative enactment, under the Initiative the expenditure limit may be increased or decreased accordingly by the ELC. Restrictions are placed on the addition or transfer of functions to local governments unless there is reimbursement.

The statutory changes to the expenditure limit adopted in the 2000 Legislative Session (EHB 3169) now allow the spending limit to be increased when revenues from another fund or account are transferred to the General Fund-State. As a result of this change, growth in General Fund-State expenditures can exceed the Initiative 601 fiscal growth factors to the extent that surplus revenues in other accounts are available for transfer to the General Fund-State.

Initiative 601 in its original form also limited revenue increases. It required that any action by the Legislature to raise state revenues be taken only if approved by a two-thirds vote of both houses of the Legislature. In the recent 2002 Legislative Session, a change to this provision was adopted (as a part of the Supplemental Budget Bill) which allows revenues to be increased with a simple majority vote. This provision applies to actions taken through June 30, 2003.

Initiative 601 abolished the Budget Stabilization Account and created two new reserve funds (the Emergency Reserve Fund and the Education Construction Fund) for depositing revenues in excess of the spending limit. Initiative 728, adopted by voters in November 2000, added a third fund, the Student Achievement Fund, that captures a portion of revenues in excess of the spending limit. Ending balances in the Budget Stabilization Account were transferred to the General Fund-State ($100 million) and the Pension Reserve Account ($25 million) in the fiscal year ending June 1996.

Initiative 601 in its original form allowed the Legislature to access and appropriate money from the Emergency Reserve Fund ("ERF") based on a two-thirds majority. A measure adopted in the 2002 Legislative Session temporarily allows access to money in the ERF based on a simple majority. EHB 3169, adopted in the 2000 Legislative Session, provides the Office of the State Treasurer with the authority to transfer monies between the General Fund-State and the ERF at the conclusion of each fiscal year, to ensure that revenues deposited in the ERF for that year are exactly equal to the amount of revenues collected in excess of the expenditure limit for that year.

Most of Initiative 601, including the General Fund-State expenditure limit, became effective July 1, 1995. Two provisions of the initiative became effective on December 1, 1993: the requirement for supermajority legislative approval of fee increases beyond the fiscal year growth factor, and a restriction on new taxes being imposed without voter approval. At the beginning of Fiscal Year 1996 (July 1, 1995), the requirement for voter approval for new tax measures expired. Taxes now can be enacted with a two-thirds majority of both houses of the Legislature if resulting General Fund-State expenditures do not exceed the spending limit. Voter approval still would be required to exceed the spending limit. However, the Supplemental Budget Bill passed in the 2002 Legislative Session allows revenue increases to occur based on a simple majority vote for any action taken through June 30, 2003.

Finally, EHB 3169 changes the threshold for spillover of money from the Emergency Reserve Fund to the Education Construction Fund from five percent of biennial revenues to five percent of annual revenues and gives the State Treasurer the authority to make the appropriate end-of-year reconciliations between the funds.

*State Nontax Revenue*. The largest components of state nontax revenue include such items as revenues derived from the sale of supplies, materials and services, fines and forfeitures, income from property, transfer of lottery proceeds, and income from liquor sales.

*Federal Grants*. Legislative appropriations for federal programs are designated specifically from federal revenue sources. To the extent that federal funds are not received, the appropriated expenditures may not be incurred.

**Expenditures**

Expenditures of general state revenues are made pursuant to constitutional and statutory mandates. Most general state revenue is deposited in the General Fund-State. For a breakdown of expenditures by function, see the table titled "Washington State Expenditures" below.

*State Funding of Basic Education*. The state's expenditures for public schools are mandated by the state constitutional requirement for support of the common schools. In 1976, Seattle School District No. 1 brought suit against the state to require the state, under the State Constitution, to make "ample provision for common schools." The decision, upheld by the State Supreme Court in 1978, required the state to ensure that each public school district would receive the funds needed to provide a basic education. The Court ordered the Legislature to decide the level of program funding and the funding mechanism.

The Legislature has passed four major pieces of legislation to further ensure stability and predictability for school funding.

(i) *The Basic Education Act* was passed in 1977, before the Supreme Court ruling, and describes course offerings, teacher contract hours, and core student/staff ratios. The Supreme Court recognized the passage of this Act in its opinion, but specifically declined to comment upon its adequacy.

(ii) *The Levy Lid Act*, also passed in 1977 and last amended in 1992, addresses property tax issues affecting basic education funding by limiting local property tax levies and providing for the gradual equalization of levy capacity per student throughout the state.

(iii) In 1981, legislation limiting local compensation increases to those authorized by the state was passed. Since personnel costs comprise over 80 percent of the public school budget, this legislation provides state financial decision-makers with an important cost containment tool.

(iv) *The School Financial Improvement Act* amended the Levy Lid Act in 1987. The amended act provided for state assistance to equalize tax rates for local levies, established a state-wide salary allocation schedule with mandated minimum salaries for teachers and required school districts to maintain minimum teacher/student ratios.

*Social and Health Services*. The Department of Social and Health Services ("DSHS") is the primary human service agency in the state; its expenditures account for the second largest category of state budget expenditures. DSHS provides services which are essential for the physical safety, security and survival of individuals and families, including protective services for children, the aged and mentally disabled people, as well as for people in institutions and other residential care facilities.

The largest expenditure within DSHS is the Medical Assistance program. Through this program, necessary medical care is made available to recipients of cash assistance programs, beneficiaries of Supplemental Security Income and other eligible people with low incomes who do not qualify for income assistance. In addition to support from the General Fund-State, funding is received from the federal government for those people and services covered under Medicaid (Title XIX of the Social Security Act). The Medical Assistance budget has grown significantly in recent years. Growth in the number of eligible recipient groups, such as pregnant women and children, and growth in other eligible populations, such as disabled people, has resulted in increased expenditures. Rising health care costs and requirements to provide higher payments to hospitals also have added to the increase in this budget.

The Economic Services program provides support to families with limited incomes and disabled people who cannot work. The federal government is providing funds for the Temporary Assistance for Needy Families program and in several other smaller programs.

DSHS also provides other social service programs. It is responsible for supporting community mental health programs and operating state psychiatric hospitals, institutions for the developmentally disabled, nursing homes, institutions for juvenile rehabilitation, child welfare service programs, child support enforcement activities, drug and substance abuse treatment programs, and vocational rehabilitation services.

*Corrections*. The Department of Corrections operates 15 correctional institutions, including three prerelease facilities and 16 work-training release facilities. The rapid growth in inmate population (the primary cost driver) is, in part, the result of various crime initiatives enacted in the state. These include the Omnibus Drug Act of 1989, the Community Protection Act of 1990, Initiative 593—"Three Strikes and You're Out," approved by Washington voters in November 1993, and the Violence Prevention Act of 1994. Over the past several years the Department of Corrections has constructed nearly 5,000 new prison beds. The newest prison, Stafford Creek Corrections Center, is a 1,936-bed, multi-custody facility that opened in April 2000 near Aberdeen, approximately 50 miles west of Olympia.

**Budgeting, Accounting and Fiscal Controls**

*Budgeting.* The state operates on a July 1 to June 30 fiscal year and on a biennial budget basis, the constitutionally prescribed period. Formulation of the state's operating budget is initiated by the Office of Financial Management, the Governor's budget agency, with the distribution of instructions to all state agencies establishing guidelines and information requirements. Development of agency budgets begins approximately nine months prior to the regular legislative sessions, which convene in odd-numbered years. Formal budget requests are forwarded by each agency to the Director of the OFM in the summer. The budget requests are revised and evaluated by the Director of the OFM and his or her staff, and alternative methods of delivering services are examined and evaluated. Following this evaluation, recommended budget levels are prepared for the Governor by the Director of the OFM. These recommendations, based on the goals and objectives of the administration, are the result of an examination of the relative merits of each program, projections of caseload, enrollment and population statistics, an assessment of the state's overall priorities, and the availability of revenue. The OFM has the responsibility for calculation of the expenditure limit each November.

Budget tables and statistics provided by the OFM for inclusion in this Official Statement are based on generally accepted accounting principles ("GAAP"). GAAP provides that the recognition and inclusion of revenues occur when they are measurable and earned, regardless of when the funds are received. Given the nature of the state's revenue collection, on an accrual basis revenues are available for expenditure prior to receipt. Recognizing that the expenditure of funds prior to receipt of offsetting revenue would erode the state's cash balance, the Legislature enacted laws which limited the expenditure of funds to the amount of revenue actually received or money on deposit over the course of the biennium. These limitations do not apply to the state's general obligation bonds.

The Governor reviews the OFM's operating budget recommendations and accepts or modifies them. Following final decisions by the Governor the budget document is published as the Governor's budget and presented to the Legislature for consideration in December of even-numbered years. The formal budget presentation to the Legislature is delivered by the Governor the following January during the first week of the legislative session. This presentation outlines the administration's primary goals and offers recommendations for the adoption of the budget to achieve those objectives.

Subsequent to the introduction of revenue and expenditure measures that embody the Governor's proposed operating budget, the Legislature engages in extensive budget deliberations and committee hearings. Legislative authorizations of long-term debt also are considered to finance a portion of the capital budget. Upon adoption of revenue and expenditure legislation by the House of Representatives and the Senate, the bills are transmitted to the Governor, who has constitutional authority to veto sections of the bills and append in writing the reasons therefor.

During a biennium, supplemental budget requests may be submitted to the Legislature during either the regular annual session or any extraordinary session, subject to the approval of the Governor.

*Accounting.* The state's accounting records are maintained in conformance with GAAP, as promulgated by the Governmental Accounting Standards Board ("GASB"). GAAP accounting is mandated by RCW 43.88.037. The state's Comprehensive Annual Financial Report ("CAFR") is accounted on a GAAP basis. The accounting system produces monthly financial statements at the state-wide combined level and at the agency level, which are used in the preparation of the state's fiscal year CAFR, including its 2001 CAFR. The state's fiscal 2001 CAFR contains Annual Financial Statements prepared in accordance with GAAP as promulgated by GASB (the "2001 Annual Financial Statements"), a copy of which has been filed with each nationally recognized municipal securities information repository ("NRMSIR"). Excerpts from the 2001 Annual Financial Statements are attached as an appendix to the Official Statement. A copy of the 2001 CAFR is available on request from the Office of the State Treasurer.

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state for its CAFR for each of the Fiscal Years 1987 through 2001. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the content of which conforms to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

*Fiscal Controls.* To ensure that the budget remains in balance, fiscal controls are exercised during the biennium through an allotment process, which requires each agency to submit a monthly expenditure plan. This expenditure plan must be approved by the OFM and provides the authority for agencies to spend funds within statutory maximums specified in the legislatively adopted budget. Reports are available that compare actual agency expenditures to estimates.

The current biennium began July 1, 2001. State law requires a balanced biennial budget. If at any time during the fiscal period the Governor projects a cash deficit because disbursements will exceed the aggregate of estimated receipts plus beginning cash surplus, the Governor is required to make across-the-board reductions in allotments in order to prevent a cash deficit, thereby reducing expenditures of appropriated funds, unless the Legislature has directed the liquidation of the cash deficit over one or more fiscal periods. Across-the-board reductions occur only in those funds estimated to have a cash deficit. For example, if the General Fund-State were projected to have a deficit, the portion of an agency's budget provided by the General Fund-State would be subject to reduction. Across-the-board reductions are placed in reserve status until needed to avert a budget deficit; if the deficit does not materialize, the across-the-board reductions are returned to the agencies.

**Debt Issuance Policy**

All state general obligation debt and other evidence of indebtedness is authorized by the Legislature and issued under the authority granted to the Committee by the Legislature.

In May 1996, the Committee adopted a revised Debt Issuance Policy which, among other things, addresses the roles and responsibilities of the Committee and the State Treasurer, standards of conduct and appointment of professional service providers. The Debt Issuance Policy also addresses methods of sale, appointments of underwriters, pricing and allocation of negotiated sales, and refunding savings thresholds.

Under "Conditions of Sale," the Debt Issuance Policy generally calls for (i) level debt service, i.e. approximately equal amounts per year, (ii) fixed interest rates and (iii) debt life shorter than or equal to estimated useful life of the facility financed. These conditions may not apply in all cases.

**State Investment Programs**

The State Treasurer's Office is responsible for the investment management of the state's operating funds totaling approximately $2 billion to $3 billion from time to time through its Treasurer's Cash Management Account (the "CMA"). The Treasurer also is responsible for administering the Washington State Local Government Investment Pool (the "LGIP"), an approximately $5 billion fund that invests money on behalf of more than 400 cities, counties and special municipal districts.

Permissible investments for both funds include U.S. government and agency securities, bankers acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, and certificates of deposits with qualified state depositories.

*Treasurer's Cash Management Account.* The CMA is a nonvoluntary pool of state agency funds; agencies are not permitted to make discretionary withdrawals for alternative investment purposes. The CMA may invest in securities with maturities out to ten years. The average life of the CMA generally ranges from one to two years.

In its management of the CMA pursuant to the Investment Policy adopted by the State Treasurer in January 2001, the State Treasurer sets its investment objectives pursuant to modern portfolio theory. To manage state funds more efficiently and effectively, the State Treasurer's CMA investments are separated into two portfolios, each with its own risk objectives. The policy sets forth, *inter alia*, the practices, procedures and restrictions applicable to the investment of funds and specifically denominates eligible investments and certain restrictions on portfolio composition. Internal controls and reporting requirements are mandated by the Investment Policy to allow for oversight and monitoring of performance.

*Local Government Investment Pool.* The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool which provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. It also is intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The LGIP is a conservatively managed, highly liquid pool comparable to a SEC Rule 2a-7 money market fund, restricted to investments with maturities of 397 days or less. The average life generally ranges from 30 to 60 days.

The LGIP adheres to the traditional principles applicable to the prudent investment of public funds, which are, in order of priority: (i) the safety of principal, (ii) the assurance of sufficient liquidity to meet cash flow demands and (iii) the attainment of the highest possible yield within the constraints of the first two goals. Historically, both the CMA and the LGIP have had sufficient liquidity to meet all cash flow demands.

**Asset Liability Management**

Up to ten percent of the state's total general obligation debt may be in variable rate form under a policy adopted by the Committee in July 1995. The purpose of this feature of debt management policy is to coordinate state debt and investment practices through asset liability management, which is defined as the management of the exposure to interest rate risk through active management of certain financial elements of the state's balance sheet. Coordinating the management of state debt and state investment is expected to reduce the volatility and the impact of interest rate changes in the General Fund-State.

Historically, state debt has been issued in long-term, fixed-rate form, while state investments have been made on a short-term basis. The issuance of some variable rate debt is intended to provide a closer match of interest expense to interest income.

**State Economic and Revenue Forecasting Process**

To assist in its financial planning, the state prepares quarterly economic forecasts derived from national econometric models. The Legislature, through enactment of Chapter 138, Laws of 1984 (RCW 82.01.130), established the Office of Forecast Council (the "Forecast Council") in the Department of Revenue, and in 1990, the Legislature established the Forecast Council as an independent body. The Forecast Council consists of six members, two appointed by the Governor and two appointed from each of the political caucuses of the Senate and House of Representatives. The Forecast Council approves the official revenue forecast for the state. The Forecast Council law requires a review of financial performance eight times during the biennium and requires action if changing economic conditions affect the budget. This "early warning" system gives policy makers time to reduce expenditures or raise taxes during economic downturns and provides the option of increasing financial reserves or dealing with emergent spending needs in periods of economic growth.

In mid-February (or March in odd-numbered years), June, September, and November, subject to the approval of the Forecast Council, the forecast supervisor uses forecasts of the U.S. economy to prepare an official state economic and revenue forecast and two unofficial forecasts, one based upon optimistic economic and revenue assumptions and one based upon pessimistic economic and revenue assumptions. The groundwork for these quarterly forecasts is undertaken in conjunction with the results of monthly state revenue collections, using a formally created economic and revenue forecast workgroup. This group consists of lead staff members representing the Department of Revenue and the OFM, as well as staff representatives of the legislative fiscal committees.

The quarterly forecast process starts with a preliminary review of the Forecast Council's findings by the workgroup. At approximately the same time, the Governor's Council of Economic Advisors is convened to provide a view of the state and national economy from outside state government. These views and cumulative and recent revenue performance are taken into account in the preparation of forecast scenarios. The Forecast Council meets to consider the economic outlook and, after a two-week interval, considers the revenue forecast and pessimistic and optimistic projections.

The state forecast by the Forecast Council that is discussed and analyzed in this Appendix A is the state forecast that was released on November 15, 2002. This forecast is the basis for the projections described under "Summary of Recent and Projected Operating Results" and "Outlook for the 2001-03 and 2003-05 Biennia." The next forecast will be released on or about March 19, 2003. Copies of the report and subsequent reports may be obtained from the Office of Economic and Revenue Forecast Council (*www.wa.gov/ofc)*.

## SUMMARY OF RECENT AND PROJECTED OPERATING RESULTS

The following tables display projected revenues and expenditures for the 1999-01 and the 2001-03 Biennia. Revenues for the 1999-01 Biennium are based on the State Forecast Council's February 2002 Forecast. Expenditures for the 1999-01 Biennium include the 2000 Supplemental Budget passed by the Legislature in April 2000 and signed by the Governor on May 2, 2000, and the 2001 Supplemental Budget passed by the Legislature in April 2001 and signed by the Governor on April 27, 2001. Revenues for the 2001-2003 Biennium are based on the November 2002 Forecast; 2001-03 expenditures are based on the 2002 Supplemental Budget passed by the Legislature in March 2002 and signed by the Governor on April 5, 2002.

The outlook for the 2001-03 Biennium immediately follows the tables.

### WASHINGTON STATE REVENUE
### MODIFIED ACCRUAL BASIS
### (in Millions)

| | 1999-01 Biennium[1] | 2001-03 Biennium Estimate [1] |
|---|---|---|
| **Beginning General Fund-State Balance** | $ 462 | $ 599 |
| **GENERAL FUND-STATE REVENUE** | | |
| Retail Sales and Use Taxes | $ 11,683 | $ 11,781 |
| Real Estate Excise | 802 | 815 |
| Business and Occupation | 3,773 | 3,818 |
| Property Tax | 2,693 | 2,629 |
| Other Taxes | 1,729 | 1,768 |
| **Subtotal Tax Revenue** | **$ 20,680** | **$ 20,810** |
| Other Nontax Revenue | 472 | 380 |
| Other Financing | 111 | (63) |
| Changes in Reserves/Other Adjustments | (1) | 0 |
| **TOTAL GENERAL FUND-STATE REVENUE [2]** | **$ 21,724** | **$ 21,726** |
| Federal Revenue | $ 8,211 | $ 10,043 |
| Private/Local Revenue | 496 | 549 |
| **TOTAL GENERAL FUND-STATE REVENUE** | **$ 30,431** | **$ 32,318** |

(1) Based on the November 2002 General Fund-State Revenue Forecast.
(2) Including balance from previous biennium.

Note: Totals may not add due to rounding.

Note: The Legislature passed its budget for 1999-01 on April 25, 1999. The Governor signed the 1999-01 Budget Bill on May 14, 1999. The 2000 Supplemental Budget was passed by the Legislature on April 27, 2000, and signed by the Governor on May 2, 2000. The 2001 Supplemental Budget was passed by the Legislature in April 2001 and signed by the Governor on April 27, 2001. The 2002 Supplemental Budget was passed by the Legislature in March 2002 and signed by the Governor on April 5, 2002.

*Source: Office of Financial Management.*

**WASHINGTON STATE EXPENDITURES**
**MODIFIED ACCRUAL BASIS**
**(in Millions)**

| GENERAL FUND-STATE EXPENDITURES | 1999-01 Biennium (1) | 2001-03 Biennium Estimate (2) |
|---|---|---|
| **Education** | | |
| Public Schools | $ 9,459 | $ 9,854 |
| Higher Education | 2,549 | 2,732 |
| Other Education | 55 | 54 |
| **Total Education** | **$ 12,063** | **$ 12,640** |
| **Human Services** | | |
| Department of Social and Health Services | $ 5,300 | $ 6,127 |
| Department of Corrections | 914 | 1,073 |
| Other Human Services | 187 | 161 |
| **Total Human Services** | **$ 6,401** | **$ 7,361** |
| **Natural Resources and Recreation** | $ 305 | $ 316 |
| **Governmental Operations** | 403 | 384 |
| **Other Expenditures** (3) | | |
| Debt Service | $ 1,119 | $ 1,251 |
| Other Expenditures | 754 | 499 |
| **Total Other Expenditures** | **$ 1,873** | **$ 1,750** |
| **TOTAL GENERAL FUND-STATE EXPENDITURES** | **$ 21,045** | **$ 22,451** |
| Federal | $ 8,211 | $ 10,043 |
| Private/Local | 496 | 549 |
| **TOTAL GENERAL FUND-STATE EXPENDITURES** | **$ 29,752** | **$ 33,043** |
| **Preliminary Ending General Fund-State Balance** | **$ 677** | **$ (726)** |
| **Transfer to the Emergency Reserve Fund Account** | **(198)** | **0** |
| **Changes in Reserves and Other Adjustments** | **0** | **40** |
| **Transfer to General Fund from Health Services Account and Other Accounts** | **121** | **1,055** |
| **Ending General Fund-State Balance** | **$ 599** | **$ 369** |
| **Emergency Reserve Fund Account Including Investment Earnings Not Reflected in the Revenue Forecast** | **$ 460** | **$ 55** |
| **Total Ending General Fund-State Balance plus Emergency Reserve Account** | **$ 1,059** | **$ 424** |

(1) Based on the 1999-01 Budget as amended by the 2000 and 2001 Supplemental Budgets that were passed by the Legislature and signed by the Governor.
(2) Based on the 2001-03 Budget as amended by the 2002 Supplemental Budget that was passed by the Legislature and signed by the Governor.
(3) Includes legislative, judicial and transportation agencies.

Note: Totals may not add due to rounding.

*Source: Office of Financial Management.*

## OUTLOOK FOR THE 2001-03 AND 2003-05 BIENNIA

### The Economic Outlook

The November 2002 economic and revenue forecast was produced prior to the release of the advance Gross Domestic Product ("GDP") estimate for the third quarter of 2002. According to the forecast, real GDP rose at a 2.7 percent rate in the quarter, slightly lower than the 3.1 percent in the advance estimate. The forecast assumed that final sales of domestic product rose at a 3.3 percent rate, indicating that the inventory cycle, which boosted growth in the first half of the year, was a slight drag in the third quarter. Consumers were once again responsible for nearly all the GDP growth in the third quarter forecast, increasing their spending at a 4.1 percent rate. Consumer spending on durable goods grew at a 20.2 percent rate, mainly on the strength of another increase in vehicle purchases. Government was the only other source of strength in the forecast for the third quarter, with a 2.8 percent growth rate due mainly to a 12.7 percent increase in military spending.

According to the forecast, the third quarter saw the first increase in payroll employment in a year and a half, an increase of 0.4 percent. At the same time the unemployment rate dipped from 5.9 percent to 5.7 percent. The Consumer Price Index fell from 3.4 percent in the second quarter to 2.2 percent in the third quarter, but the apparent improvement in inflation was due to a spike in energy costs in the second quarter. Core inflation (excluding food and energy) was 2.2 percent in both quarters. The September housing data were not available in time for this forecast, which assumed that housing starts fell at a 15.7 percent rate in the third quarter to 1.597 million units. September activity was strong, as housing starts increased 10.1 percent to 1.707 million units. The mortgage rate fell from 6.81 percent in the second quarter to 6.29 percent in the third. The forecast had assumed that there would be no further cuts in the federal funds rate, but on November 6th the Federal Open Market Committee ("FOMC") reduced its target rate by 50 basis points to 1.25 percent.

Consumers have taken on large amounts of debt and spending is becoming more income-constrained. The housing market is also showing signs of softness. Starts are slipping, as are sales of existing homes. The federal government continues to spend, but strong growth awaits a revival of investment spending. At the present time, a considerable amount of capital sits idle, and more is not being used to capacity. Bankruptcies, liquidations and layoffs have created a glut of underutilized capital that must be absorbed before orders for new equipment and construction can take off. Nonresidential construction spending has dropped in recent quarters and an early recovery is not expected, given the rising office vacancy rate, slow pace of hiring and sluggish spending at hotels and restaurants. The next few quarters should see little drag from trade, since import growth is expected to slow, but state governments are dealing with the mismatch between the cost of maintaining service levels and available revenues. On a calendar year basis, the forecast expects GDP growth to improve from 0.3 percent in 2001 to 2.4 percent in 2002, 3.0 percent in 2003, and 4.0 percent in 2004 before settling back to 3.3 percent in 2005. Though the economy is growing again, it is not creating enough jobs to keep up with labor force growth. The unemployment rate, which has already increased from 3.97 percent at the end of 2000 to 5.73 percent in the third quarter of 2002, is expected to reach 6.10 percent by the second quarter of 2003. The unemployment rate is expected to decline through the remainder of 2003, 2004, and 2005 as the economy recovers, reaching 4.97 percent by the end of 2005. Inflation, as measured by the implicit price deflator for personal consumption expenditures, is expected to decline from 2.0 percent in 2001 to 1.5 percent in 2002. The improvement in 2002 is mainly the result of lower energy costs, but the slumping economy should keep inflation moderate for the next few years. The forecast expects inflation rates of 2.6 percent in 2003 and 2.7 percent per year in 2004 and 2005 and assumes that there will be no further cuts in the federal funds rate during this cycle. However, the FOMC will not begin tightening until early next summer.

Washington payroll employment fell at a 0.9 percent rate in the third quarter of 2002, following a 0.4 percent increase in the second quarter. The monthly data through September suggests another decline in the fourth quarter producing a two-year drop of 3.2 percent. Nationally the peak-to-trough decline was 1.3 percent. Only twice in the last forty years has Washington seen a steeper decline: during the recessions of 1969-71 and 1981-82. Manufacturing employment fell at an 8.1 percent annual rate in the third quarter, the seventeenth consecutive decline in overall manufacturing employment excluding the impact of the February 2000 aerospace labor dispute. Aerospace employment fell at a 17.5 percent annual rate in the third quarter. The cumulative decline since September 11 now stands at 16.1 percent. The declines in manufacturing outside of aerospace are continuing in 2002, though at a more moderate rate than in 2001. Non-aerospace manufacturing employment fell at a 4.8 percent rate in the third quarter, following declines of 5.6 percent and 4.1 percent in the first two quarters of the year. Nonmanufacturing employment increased at a 0.1 percent rate in the third quarter of 2002, but the increase was likely due to a seasonal anomaly in local education employment. Excluding this anomaly, nonmanufacturing employment would have declined at a 0.4 percent rate. Nonmanufacturing employment growth was mixed in the third quarter, with some sectors showing growth led by construction at 4.3 percent and both trade and finance, insurance, and real estate at 0.5 percent. Government employment grew at a 0.2 percent rate but, after adjusting for local education, was down at a 2.0 percent rate in the third quarter. Transportation, communications and public utilities employment fell at a 2.9 percent rate in the third quarter and services employment decreased at a 0.6 percent rate after two quarterly increases.

Washington's personal income in the first quarter of 2002 was $4.423 billion (2.3 percent) higher than expected in the September forecast, and second quarter wages were $2.256 billion (2.1 percent) higher than expected in September. Software wages were on target, $0.004 billion (0.1 percent) lower, but non-software wages were $2.260 billion (2.2 percent) higher. Nonwage personal income was $2.167 billion (2.6 percent) higher than expected in September, due almost entirely to a $2.164 billion upward revision to the historical data resulting from the incorporation of the annual NIPA revisions. In September $2.615 billion was added in anticipation of the revision, but Washington has received a disproportionate share of the national revision.

The number of housing units authorized by building permit fell 2,900 to 40,900 in the third quarter of 2002 after rising in the second quarter to 43,800, which was the highest level in three years. Single family permits increased 900 to 33,100, but the number of multi-family units authorized fell 3,800 to 7,800. The pace of housing activity remains high considering the state of the overall economy.

The disconnect between Washington's economy and the national economy appears to be continuing in the second half of 2002. U.S. employment bottomed out in the second quarter of 2002 though there has been little growth since. It now appears that the bottom for the state will be the fourth quarter, however. The near-term aerospace forecast for Washington remains similar to the forecast adopted in September, but reductions are now expected to continue throughout 2004 and growth in 2005 is expected to be weaker than assumed in September. By the end of 2005 the current aerospace employment forecast (excluding contract employees) is 6,900 lower than assumed in September. The forecast for lumber and wood products employment has also been reduced in response to recent layoff announcements by Weyerhauser, which reduces employment in this sector by about 1,100 by the end of 2004. The software wage assumption is higher due to an improved outlook for Microsoft stock option income. As in September, the forecast assumes there will be no major fluctuations in Microsoft stock option activity. In 2002 the state is experiencing the first ever year-over-year declines in software employment. The forecast assumes a resumption of positive growth of about 350 per quarter beginning in the first quarter of 2003, accelerating to 650 per quarter by the end of the year. As in September, the forecast assumes an increase in employment related to the construction of the nuclear waste vitrification plant at Hanford from about 2,500 earlier this year to a peak of 4,500. Employment is expected to drop off after the peak in mid-2004, reaching 2,500 by the end of 2005.

Washington wage and salary employment fell 0.6 percent in 2001 following a 2.4 percent increase in 2000. The combination of the national recession and severe cutbacks in aircraft manufacturing is expected to result in a 1.9 percent decline in 2002. The recovery in Washington is expected to be slow.

The forecast expects a weak national recovery, and no Boeing upturn is expected until 2005. Population growth has slowed and both wage growth and price growth have been dampened by the prolonged contraction. The forecast calls for an employment growth rate of 0.7 percent in 2003, improving to 2.4 percent and 2.1 percent in 2004 and 2005. Washington personal income growth slowed in 2001 to 2.6 percent from 7.2 percent in 2000. Excluding the volatile software sector, personal income growth slowed from 8.7 percent to 3.3 percent. Personal income growth is expected to remain weak in 2002 and 2003 due to the weak national economy and Boeing layoffs. The forecast expects personal income to grow 3.5 percent in 2002 and 3.6 percent in 2003. Income growth increases in the final two years to 5.5 percent and 6.1 percent as the U.S. recovery takes hold and the aerospace cuts subside. The forecast expects housing permits to increase from 38,300 in 2001 to 39,900 in 2002, mainly as a result of strong second quarter activity. Housing will be relatively flat for the next two years as weak population growth is offset by low interest rates. The forecast expects housing permits of 38,400 in 2003 and 40,500 in 2004. A stronger economy in 2005 will be countered by rising mortgage rages, resulting in a slight decline to 39,700 in the final year of the forecast.

**Alternative Economic Forecasts**

The Washington State Economic and Revenue Forecast Council also provided an optimistic forecast and a pessimistic forecast in November 2002.

*Pessimistic Forecast.* Despite rapid first-quarter GDP growth and solid increases in productivity, companies are having trouble generating profits. In an effort to improve the bottom line despite lagging revenues, businesses are likely to delay investment and postpone hiring to an even greater extent than in the baseline forecast. The end of the inventory cycle carries the economy through the second half, but final demand lags as investment stagnates and consumers become more cautious. Fearful that the volatile stock market will drag the economy back into recession, the FOMC lowers the federal funds rate to 1.25 percent. When the United States moves into Iraq next spring to topple Saddam Hussein, oil prices spike and consumer confidence drops. The situation never deteriorates enough to cause a “double-dip” recession, largely because of a steady increase in federal spending, not only to fight the war and increase domestic security, but also to penalize corporate wrongdoing. After the first-quarter increase, real GDP growth maintains in the 0.0-1.6 percent range through summer 2003. The unemployment rate rises to 6.8 percent because most of the growth is achieved through productivity gains, leaving little to absorb the new workers entering the labor force. By mid-2003, with the Middle East quiet and oil prices back down, pent-up demand moves the economy into recovery mode. At the state level, aerospace production and employment cuts are more severe and protracted than assumed in the baseline forecast, with a modest upturn beginning in 2005. Washington’s wage growth and inflation are lower than in the baseline and the initial level of Washington personal income is lower. Population growth is also slower in this scenario and the downturn in construction employment extends through the first quarter of 2004. By the end of the 2003-05 Biennium, Washington nonagricultural employment is lower by 64,600 jobs than in the baseline forecast and Washington personal income is $11.9 billion lower. The pessimistic scenario produced $212 million (1.0 percent) less General Fund-State revenue in the 2001-03 Biennium than did the baseline forecast and $1,189 million (5.2 percent).less revenue in the 2003-05 Biennium.

*Optimistic Forecast.* Despite a slowdown in the second quarter and only a moderate pickup in the third, the economy’s fundamentals remain solid. In the optimistic scenario, consumer and business confidence returns to more normal levels, resulting in a stronger rise in the stock market than in the baseline, and an earlier pickup in business investment. Growth registers 3.1 percent in the fourth quarters of 2002, then accelerates to 4.5-5.5 percent in 2003. The economy grows at 3.9 percent, compared with 3.0 percent in the baseline. The stronger economy results in higher inflation in the out years and hence a higher federal funds rate starting in 2004. Congress, the Bush administration, the Financial Accounting Standards Board, and the Securities and Exchange Commission are working to tighten and fine-tune the laws; corporate boards and CEOs are working just as hard to convince stockholders that all is aboveboard. The optimistic forecast assumes that confidence is restored sooner rather than later. Growth is higher than in the baseline, simply because the economy returns to trend growth a few quarters sooner. Locally, the decline in Washington aerospace employment is less severe than in the baseline forecast and the recovery is stronger. Washington's wages grow faster than in the baseline and the Seattle CPI grows faster relative to the U.S. CPI. The initial level of Washington personal income is also higher in the optimistic scenario. Population growth is stronger in the optimistic scenario and construction employment turns up earlier and more vigorously than in the baseline. By the end of the 2003-05 Biennium, Washington nonagricultural employment is higher by 56,500 jobs than in the baseline forecast and Washington personal income is $10.0 billion higher. The optimistic scenario generated $214 million (1.0 percent) more revenue in the 2001-03 Biennium than did the baseline forecast and $1.126 billion (5.0 percent) more in the 2003-05 biennium.

**Budgetary Outlook**

For the 2001-03 Biennium (after the 2002 Supplemental Session), General Fund-State revenues are projected to be $21.126 billion, a decrease of less than one percent from the 1999-01 Biennium, plus a carry-forward of $599 million. This figure includes $25 million in tax reductions that are the result of the passage by the state's voters of Initiative 747, which limits property tax increases. Another $9 million shift of revenue from the General Fund-State to other funds is assumed based upon the voters' passage of Initiative 773, which earmarks tobacco taxes for low-income health programs. The 2002 Supplemental Budget includes additional net revenue of $88 million, including $24 million for the new Big Game multi-state lottery, recovery of $46 million of existing taxes owed to the state by hiring additional tax auditors, $27 million in additional use taxes, and several small revenue reductions. The revenue outlook for the 2001-03 Biennium is expected to remain low at this time, and the 2002 Supplemental Budget passed by the Legislature and signed by the Governor brings General Fund-State revenue and expenditures back into balance.

With the passage of the 2002 Supplemental Budget, the operating budget for the 2001-03 Biennium calls for an overall expenditure level of $22.45 billion for General Fund-State, which is an increase of $1.70 billion or 8.3 percent over the 1999-01 Biennium. This is among the smallest of the biennial growth rates in the past decade, and is within the $22.86 billion expenditure limit imposed by Initiative 601.

Fifty-five percent of the General Fund-State budget will go to support public schools and higher education. Most of the $459 million increase in public school funding is directed toward salary improvements that will aid in retaining and recruiting quality teachers, hiring additional teachers and providing means to assist struggling students. The legislative budget for the 2001-03 Biennium includes an increase of $48 million in General Fund-State and Other funds spending for 3,500 student enrollment increases in public universities and colleges, $19 million for work study and financial aid and $11 million in the Promise Scholarship program that will provide scholarships to more than 6,700 high school students from the top 15 percent of high school senior classes. Also in the budget is an increase of $113 million for salary adjustments to university and college faculty and staff, including funding for faculty retention pay increases, and to part-time faculty at the community and technical colleges intended to address pay disparities.

The spending for human service delivery systems provided by the Department of Social and Health Services makes up approximately 27 percent of the state budget. The "Work First" program, established in 1997, has enabled more than 145,000 job placements for clients. Welfare caseloads have dropped by 44 percent since the inception of the program. A survey of people leaving the program found that their wages average $7.80 per hour. The largest increase in the Human Services budget was made in the Medical Assistance Program, where $625 million in funding was added to cover medical inflation and the increasing caseload and per capita costs.

The $310 million in tobacco settlement funding that the state will receive in the 2001-03 Biennium will be used in the Health Services Account to fund the state's Basic Health Plan, which will reach 125,000 enrollees, and for other public health expenditures. An additional $100 million in tobacco settlement dollars was used in the 1999-01 Biennium to establish an endowment fund to support public health efforts in smoking cessation, prevention and enforcement. The tobacco settlement funding is not part of the General Fund-State budget, and consequently such revenues and planned expenditures are not reflected in the General Fund-State budget figures presented herein.

The focus in criminal justice in the 2001-03 Biennium is on keeping communities safe from crime and drugs. Funding ($48 million) is provided in the capital budget to begin construction of a Special Commitment Center for Sexual Officers.

An across-the-board salary increase of 3.7 percent in the first year for state employees accounts for $233 million in General Fund-State spending increases in the 2001-03 Biennium. Additionally, Initiative 732 was passed by the voters and provided for annual salary increases for K-12 teacher based upon the Seattle CPI index. The 2001-03 budget provides $369 million for a 3.7 percent increase for the first year, and a 3.6 percent increase in the second year.

The following table provides the General Fund-State budget for the 2001-03 Biennium.

**2001-03 BIENNIUM**
**GENERAL FUND-STATE BUDGET**
**(Modified Accrual Basis)**
**(in Millions)**

| | |
|---|---|
| Beginning Fund Balance | $ 599 |
| Revenue | |
| June 2001 Forecast | $ 22,099 |
| September 2001 Forecast Change | (96) |
| 2001 Legislative Changes | 18 |
| November 2001 Forecast Change | (779) |
| Initiative 747 Limits on Property Tax Increases | (25) |
| Initiative 773 Tobacco Taxes for Low Income Health and Other Programs | (9) |
| February 2002 Forecast Update | (266) |
| Estate Tax, Legal Interpretation | 19 |
| 2002 Legislative Changes | 93 |
| June 2002 Forecast | 85 |
| September 2002 Forecast | (34) |
| November 2002 Forecast | 20 |
| Total Revenue | $ 21,126 |
| **Total Sources** | **$ 21,725** |
| **Total Expenditures** | **$ 22,451** |
| **Preliminary General Fund-State 2001-03 Balance** | **$ (726)** |
| **Transfer from General Fund to Emergency Reserve Account** | **0** |
| **Transfer to General Fund from Health Services Account and Other Accounts** | **1,055** |
| **Changes in Reserves and Other Adjustments** | **40** |
| **Ending General Fund-State Balance** | **$ 369** |
| **Emergency Reserve Fund Account Balance** | **55** |
| **Projected 2001-03 Balance Including Emergency Reserve Account** | **$ 424** |

*Source: Office of Financial Management.*

### State Transportation Budget

The Legislature passed the state transportation budget for the 2001-03 Biennium on June 21, 2001, and the Governor signed the bill on June 26, 2001. The total $3.8 billion budget bill contained funding for $2.1 billion in capital expenditures, including $1.8 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The bill also contained funding for the Washington State Patrol, the Department of Licensing and other transportation agencies.

The state gas tax, currently 23 cents per gallon, historically has been pledged for debt service retirement on transportation bonds.

## CAPITAL BUDGET AND STATE DEBT

### State Capital Budget

The state's 2001-03 biennial capital budget adopted by the 2001 Legislature provided for $2.5 billion expenditures in new projects. Of this total, $887 million in expenditures were to be funded from the sale of general obligation bonds that are subject to the state's statutory debt limit.

The 2002 Supplemental Budget includes an economic stimulus package that increases the amount provided for new state projects by $107 million.

Including the 2002 Supplemental Budget, the 2001-03 biennial capital budget provides for $711 million for higher education projects, $400 million for K-12 education, $625 million for natural resource projects, and $230 million in public works low interest loans to local governments. In addition, the budget includes $81 million for major renovations to the state Capital Building. Other capital funds are divided across the remaining state governmental functions.

### General Obligation Debt

*General Obligation Debt Authority.* The State Constitution and enabling statutes authorize by three different means the incurrence of state general obligation debt, the payment of which is secured by a pledge of the state's full faith, credit and taxing power:

(i) by the affirmative vote of 60 percent of both houses of the Legislature, without voter consent (in which case the amount of such debt is generally but not always subject to both constitutional and statutory limitations; see "General Obligation Debt Limitations" below);

(ii) by the affirmative vote of 50 percent of both houses of the Legislature and a majority of the voters voting thereon (in which case the amount of the debt so approved is not subject to other constitutional limitations, but is subject to statutory limitations; see "General Obligation Debt Limitations" below); or

(iii) by a body designated by statute (currently the Committee) without limitation as to amount, without approval of the Legislature (except as to appropriation of the sums borrowed) and without the approval of the voters; however, such debt:

   (a) may be incurred only to meet temporary deficiencies of the State Treasury, to preserve the best interests of the state in the conduct of the various state institutions, departments, bureaus, and agencies during each fiscal year;

   (b) must be discharged, other than by refunding, within 12 months of the date of incurrence;

   (c) may be incurred only to provide for appropriations already made by the Legislature; or

   (d) may be incurred to refund outstanding obligations of the state.

The State Constitution also permits the state to incur additional debt to repel invasion, suppress insurrection or to defend the state in war.

*General Obligation Debt Limitations*. With certain exceptions noted below, the amount of state general obligation debt which may be incurred by the means described in the section entitled "General Obligation Debt Authority" above is limited by constitutional and statutory restrictions. The limitations in both cases are imposed by prohibiting the issuance of new debt if the new debt would cause the maximum annual debt service on all thereafter outstanding general obligation debt to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These are limitations on the incurrence of new debt and are not limitations on the amount of debt service which may be paid by the state in future years.

"General state revenues" is defined for purposes of the constitutional limitation as including all state money received in the State Treasury from each and every source whatsoever, with certain exceptions that include (i) fees and revenues derived from the operation of any facility; (ii) earmarked gifts, grants, donations, and aid; (iii) money for retirement system funds and performance bonds; (iv) money from trust funds, proceeds from sale of bonds or other indebtedness; and (v) taxes levied for specific purposes. For purposes of the statutory limitation, "general state revenues" also includes revenues deposited in the state general fund that are derived from the state real estate excise tax in support of the common schools and the state lottery.

The constitutional and statutory limitations, which are overlapping, are summarized as follows:

(i) *The Constitutional Limitation*. Under Article VIII, Section 1 of the State Constitution, new general obligation debt may not be issued if the new debt would cause maximum annual debt service on all thereafter outstanding general obligation debt to exceed nine percent of the arithmetic mean of general state revenues for the preceding three fiscal years. Excluded from the calculation are the following types of general obligation debt:

(a) debt payable primarily from excise taxes levied on motor vehicle fuels, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles;

(b) debt which has been refunded;

(c) debt issued after approval of both houses of the Legislature and a majority of those voting in a general or special election;

(d) debt issued to meet temporary deficiencies in the State Treasury (described in "General Obligation Debt Authority" above);

(e) debt issued in the form of bond anticipation notes;

(f) debt issued to fund or refund debt of the State Building Authority (no longer in existence);

(g) debt issued to pay "current expenses of [S]tate government;"

(h) debt payable solely from the revenues of particular public improvements (revenue debt of the state), and

(i) any state guarantee of voter-approved general obligation debt of school districts in the state.

(ii) *The Statutory Limitation*. Under chapter 39.42 RCW, new general obligation debt may not be issued if the new debt would cause maximum annual debt service on all thereafter outstanding general obligation debt to exceed seven percent (as contrasted with the nine percent limitation in the State Constitution) of the arithmetic mean of general state revenues for the preceding three fiscal years.

The percentage limitation and the general obligation debt excluded from calculation of the limitation under this state statute have changed from time to time. The types of general obligation debt currently excluded from the calculation are the same as those excluded from the calculation under the constitutional limitation with the following exceptions:

(a) general obligation debt issued after approval of both houses of the Legislature and a majority of the voters, which is included rather than excluded as described above under "The Constitutional Limitation;"

(b) general obligation debt issued prior to July 1, 1993, pursuant to statute which requires that the State Treasury be reimbursed for the full debt service on such debt from money other than general state revenues or from special excise taxes imposed under chapter 67.40 RCW (“reimbursement bonds”);

(c) general obligation debt issued after July 1, 1993, pursuant to statute which requires that the State Treasury be reimbursed for the full debt service on such debt from (1) moneys outside the State Treasury (except for higher education operation fees); (2) higher education building fees; (3) indirect cost recovered from federal grants and contracts; and (4) University of Washington hospital patient fees;

(d) general obligation debt issued to finance certain improvements to the state capitol east plaza garage pursuant to RCW 43.99Q.070; and

(e) general obligation debt issued to finance the rehabilitation of the state legislative building to the extent such debt is paid from the capitol building construction account pursuant to RCW 43.99Q.140(2)(b).

*Current General Obligation Debt Capacity.* By applying the statutory limitation on general obligation debt, which is currently the more restrictive of the constitutional and statutory limitations, the state’s estimated general obligation debt capacity (excluding Committee-authorized short-term debt described above) is calculated as follows:

| | |
|---|---|
| Estimated arithmetic mean of general state revenues for fiscal years ending June 30, 2000, 2001, and 2002 (1) | $ 8,813,324,614 |
| 7% of such arithmetic mean (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum) | $ 616,932,723 |
| Maximum annual debt service on outstanding general obligation debt (12/4/2002) | $ 559,810,078 |
| Uncommitted portion of debt service limitation (12/4/2002) | $ 57,122,645 |
| Remaining state general obligation principal debt capacity after sale of current and projected issues (assuming a 25-year amortization and an interest rate of 6.00% on future issues) (2) | $ 730,219,114 |

(1) Preliminary, subject to change. The arithmetic means of general state revenues for fiscal years ending a) June 30, 1999, 2000, and 2001, b) June 30, 1998, 1999, and 2000, c) June 30, 1997, 1998, and 1999, and d) June 30, 1996, 1997, and 1998, were $8,655,884,795, $8,305,755,187, $7,918,308,401, and $7,559,859,280, respectively. Source: "Certification of the Debt Limitation of the State of Washington" for fiscal years 1999 through 2002.

(2) The amount of debt that can be issued under this debt limitation calcualtion is subject to numerous factors, including state revenues, debt structure and interest rates, and may vary over time.

*Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes).* Chapter 39.42 RCW and the respective bond acts of the state delegate to the Committee the authority to issue, in the name of the state, temporary notes in anticipation of the sale of bonds. Pursuant to statutory authority and resolution of the Committee, such notes are general obligations of the state. Principal of and interest on such notes are excluded from the constitutional and statutory debt limitations. The state has no bond anticipation notes currently outstanding.

Article VIII of the State Constitution and chapter 39.42 RCW provide for the issuance of certificates of indebtedness to meet temporary deficiencies in the State Treasury. Such indebtedness must be retired other than by refunding within twelve months of the date of issue. Principal and interest on certificates of indebtedness is excluded from constitutional and statutory debt limitations. The state has no certificates of indebtedness currently outstanding and does not anticipate any external short-term borrowing during the current biennium.

**Motor Vehicle Fuel Tax Obligations**

As of December 4, 2002, there will be outstanding $1,643,920,000 motor vehicle fuel tax bonds secured by a pledge of, and first payable from, excise taxes levied against motor vehicle and special fuels. Additionally, these bonds are secured by the full faith, credit and taxing power of the state. Such bonds are not subject to the constitutional or statutory debt limitation.

*Motor Vehicle Fuel Tax Rates*. Chapter 49, Laws of 1983, 1st Ex. Sess., established a motor vehicle fuel tax at a fixed cents-per-gallon rate. Effective April 1, 1990, the fuel tax was raised to 22 cents per gallon from 18 cents. Effective April 1, 1991, the fuel tax was raised to 23 cents per gallon.

*Revenue Available for Debt Service.* The following table presents the state's motor vehicle fuel excise tax collection experience at various rates per gallon, including a revenue projection of the 23 cents per gallon tax effective April 1, 1991, and the allocations of excise tax pledged for bond principal and interest payments.

| | Revenue Pledge | County-City Allocation (1) | State Allocation (2) |
|---|---|---|---|
| July 1, 1990 – June 30, 1991 | $573,879,233 | $78,783,798 | $281,699,313 |
| July 1, 1991 – June 30, 1992 | 610,681,244 | 81,153,690 | 305,143,075 |
| July 1, 1992 – June 30, 1993 | 596,015,283 | 79,888,937 | 297,161,376 |
| July 1, 1993 – June 30, 1994 | 614,890,069 | 82,418,884 | 306,571,969 |
| July 1, 1994 – June 30, 1995 | 615,525,077 | 82,503,999 | 306,888,571 |
| July 1, 1995 – June 30, 1996 | 655,427,980 | 87,887,898 | 327,133,159 |
| July 1, 1996 – June 30, 1997 | 672,095,589 | 89,661,476 | 336,186,110 |
| July 1, 1997 – June 30, 1998 | 688,474,782 | 91,846,557 | 344,379,077 |
| July 1, 1998 – June 30, 1999 | 712,559,355 | 95,059,580 | 356,426,320 |
| July 1, 1999 – June 30, 2000 | 721,684,773 | 96,276,797 | 365,130,833 |
| July 1, 2000 – June 30, 2001 | 723,945,995 | 96,578,457 | 366,272,623 |
| July 1, 2001 – June 30, 2002 (3) | 720,305,001 | 96,092,728 | 364,429,773 |

(1) Allocation of excise tax revenues first used for payment of debt service for county-city urban program (RCW 47.26.404, 47.26.4252, 47.26.4254, and 47.26.505).

(2) Allocation of excise tax revenues first used for payment of debt service for ferry vessels, State Route 90 and the state highway bonds.

(3) Department of Transportation forecast (November 2002).

*Revenue Pledge and Distribution Percentages*. Each legislative act authorizing the issuance and sale of motor vehicle fuel tax bonds provides that the principal of and interest on such bonds are secured by a pledge of the excise taxes levied on motor vehicle and special fuels imposed by chapters 82.36 and 82.38 RCW (formerly by chapters 82.36 and 82.40 RCW). That pledge constitutes a charge against the revenues from such motor vehicle and special fuels excise taxes equal to the charge of any other general obligation bonds of the state that have been and may hereafter be authorized that also pledge motor vehicle and special fuels excise taxes for their payment. By statutory provision the Legislature has covenanted to continue to levy that excise tax in amounts sufficient to pay, when due, the principal and interest on all of those bonds issued under the respective legislative authorizations. All motor vehicle fuel tax general obligation bonds of the state are further secured by a pledge of the full faith, credit and taxing power of the state. The act authorizing the issuance of refunding bonds requires, as to bonds to be refunded that are secured by motor vehicle fuel taxes, that the refunding bonds be secured by the same taxes in addition to the pledge of the state's full faith and credit and taxing power.

The Legislature has established a statutory scheme for the distribution and expenditure for various purposes of specified percentages of motor vehicle and special fuels excise taxes received in the motor vehicle fund. However, the Legislature has provided that nothing in those provisions may be construed to violate the terms and conditions of any highway construction bond issues authorized by statute and whose payment is by such statute pledged to be paid from any excise taxes on motor vehicle and special fuels. With the pledge of the aggregate of motor vehicle and special fuels excise taxes for payment of the principal of and interest on all motor vehicle fuel tax bonds currently authorized, that statutory scheme can be characterized as a mandate as to which portion of such excise taxes should first be used to transfer funds to the Highway and Ferry Bond Retirement Funds.

**Sources of Repayment**

The Legislature is obligated to appropriate money for state debt service requirements. Appropriations providing for the payment of bond principal and interest requirements on each series of bonds normally are included in the omnibus appropriation act or occasionally in another appropriation act of each biennial session. In addition, it has been the practice to provide in each omnibus appropriation act an appropriation of such additional money as may be required to satisfy bond covenants and laws for reserves, surplus funds and other "set-asides."

Generally, each bond statute provides that on or before June 30 of each year the Committee shall certify to the State Treasurer the amount required for payment of bond principal and interest for the ensuing fiscal year. For bonds authorized before the First Extraordinary Session of the 1977 Legislature on July 1 (in some instances on June 30), the State Treasurer was required to transfer those funds from any state general revenues, component or dedicated revenues, depending on the revenue pledge, to the specified bond fund. For bonds authorized during the 1977 First Extraordinary Legislative Session and for all subsequent authorizations made prior to the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds not less than 30 days prior to the principal or interest payment date. For bonds authorized during and since the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds on the principal or interest payment date.

The statutes(s) authorizing the bonds and other general obligations of the state require the Committee to certify annually the amount needed to provide for payment of debt service and require the State Treasurer to deposit "general state revenues" in such amount into the General Obligation Bond Retirement Fund from time to time. The term "general state revenues" is defined in Article VIII in the State Constitution. Not all money deposited in the General Fund-State constitutes general state revenues. The following table presents general state revenues for fiscal years since 1997:

**GENERAL STATE REVENUES**
**(in Millions)**

| Fiscal Year | General State Revenues |
|---|---|
| 2001 | $ 9,049.773 |
| 2000 | 8,655.570 |
| 1999 | 8,252.312 |
| 1998 | 7,999.384 |
| 1997 | 7,503.229 |

Some general obligation bond statutes provide that the General Fund-State will be reimbursed from discrete revenues which are not considered general state revenues. For example, tuition fees charged by institutions of higher education must reimburse the General Fund-State for payment of debt service for a number of higher education construction bonds. Other similar reimbursement requirements apply to hospital patient fees (for University of Washington Hospital Construction Bonds) and lease-rental proceeds (for Washington State University Research Center Bonds). All of these required reimbursements have been made to date.

In addition, special hotel-motel tax proceeds collected in King County are pledged to reimburse the General Fund-State debt service payments for the 1983 State Convention and Trade Center Bonds.

For motor vehicle fuel tax bonds, at least one year prior to the date any interest is due and payable on those bonds or prior to the maturity date of any bonds, the Committee estimates, subject to the provisions of the pledge of revenue, the percentage of the monthly receipts of the motor vehicle fund resulting from collection of excise taxes on motor vehicle and special fuels that will be necessary to meet interest or bond payments when due. Each month as such funds are paid into the Motor Vehicle Fund, the State Treasurer must transfer such percentage of the monthly receipts from excise taxes on motor vehicle and special fuels in the Motor Vehicle Fund to the Highway Bond Retirement Fund and the Ferry Bond Retirement Fund, the latter of which is to be used for payment of the principal of and interest on the state ferry bonds when due. If in any month it appears that the estimated percentage of money so transferred is insufficient to meet the requirements for interest and bond retirement, the State Treasurer must notify the Committee, and the Committee must adjust its estimates so that all requirements for interest and principal of all bonds issued will be fully met at all times.

The state retains and expects to continue to retain a minimum surplus of funds in the Highway Bond Retirement Fund pending the development of clear estimates of the consequences of energy conservation measures and more definite Department of Transportation revenue projections.

With respect to state ferry bonds, concurrent with the distribution of motor vehicle and special fuel tax revenue to the Ferry Bond Retirement Fund, the State Treasurer must transfer a like amount of funds from the Puget Sound Capital Construction Account to the Motor Vehicle Fund.

**State Bonds Outstanding**

The following table summarizes as of December 4, 2002, the state's general obligation bonds and general obligation bonds secured by motor vehicle fuel tax revenue.

| | |
|---|---|
| General Obligation Bonds.......................................... | $ 6,753,339,728 |
| Motor Vehicle Fuel Tax General Obligation.............. | 1,643,920,317 |
| | $ 8,397,260,045 |

An additional $1,011,548,000 principal amount of general obligation bonds and $1,617,325,000 principal amount of motor vehicle fuel tax general obligation bonds currently will be authorized but unissued as of December 4, 2002. Issuance of additional general obligation bonds is subject to constitutional and statutory debt limitations. By statute, additional general obligation bonds (with certain exceptions) may not be issued if, after giving effect thereto, maximum annual debt service would exceed seven percent of the three-year average of general state revenues. State motor vehicle fuel tax general obligation bonds and certain other bonds are not subject to that limitation.

The maximum annual debt service on all outstanding general obligation bonds is covered 13.11 times by general state revenues of $9.050 billion for the fiscal year ending June 30, 2001. Coverage of the projected annual debt service on all outstanding motor vehicle fuel tax general obligation bonds is 4.78 times based upon estimated gasoline tax revenues of $720.305 million for the fiscal year ending June 30, 2003.

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## Schedules

Schedules Nos. 1 through 3 on the following pages show debt service on outstanding and proposed general obligation bonds and motor vehicle fuel tax bonds and analyses of the various types of revenues pledged to secure these bonds.

### SCHEDULE NO. 1 (Combined — General State Revenues and Components, Motor Vehicle Fuel Tax, and Other Revenues)

**TOTAL BONDS OUTSTANDING AND DECEMBER 4, 2002 BOND OFFERING**

| Fiscal Year Ending June 30th | Outstanding 12/4/2002 (1) Principal | Outstanding 12/4/2002 (1) Interest (4) | December 4, 2002 Bond Offering (2) Principal | December 4, 2002 Bond Offering (2) Interest | Total (3) |
|---|---|---|---|---|---|
| 2003 | $ 142,455,000 | $ 200,033,244 | $ 960,000 | $ 800,605 | $ 344,248,849 |
| 2004 | 391,930,451 | 418,076,902 | 555,000 | 3,275,725 | 813,838,078 |
| 2005 | 400,427,976 | 403,097,634 | 1,745,000 | 3,241,225 | 808,511,835 |
| 2006 | 402,899,229 | 379,785,170 | 3,410,000 | 3,163,900 | 789,258,299 |
| 2007 | 416,933,126 | 363,604,976 | 3,500,000 | 3,060,250 | 787,098,352 |
| 2008 | 425,014,536 | 340,299,601 | 3,650,000 | 2,916,500 | 771,880,637 |
| 2009 | 417,969,498 | 321,456,348 | 3,500,000 | 2,737,750 | 745,663,595 |
| 2010 | 394,071,449 | 302,859,640 | 3,685,000 | 2,558,125 | 703,174,214 |
| 2011 | 368,912,296 | 282,989,286 | 3,865,000 | 2,369,375 | 658,135,957 |
| 2012 | 357,145,825 | 267,842,429 | 4,065,000 | 2,171,125 | 631,224,379 |
| 2013 | 375,449,260 | 244,649,876 | 4,275,000 | 1,962,625 | 626,336,761 |
| 2014 | 391,547,703 | 220,819,933 | 4,975,000 | 1,731,375 | 619,074,011 |
| 2015 | 414,584,450 | 209,894,644 | 5,240,000 | 1,476,000 | 631,195,094 |
| 2016 | 422,797,462 | 202,338,807 | 5,510,000 | 1,207,250 | 631,853,519 |
| 2017 | 414,172,401 | 201,300,036 | 5,810,000 | 924,250 | 622,206,687 |
| 2018 | 388,891,529 | 179,039,114 | 6,115,000 | 626,125 | 574,671,768 |
| 2019 | 365,162,673 | 161,956,516 | 5,825,000 | 327,625 | 533,271,814 |
| 2020 | 344,184,786 | 149,081,579 | 3,640,000 | 91,000 | 496,997,365 |
| 2021 | 298,788,504 | 105,062,338 | - | - | 403,850,842 |
| 2022 | 273,092,353 | 68,128,322 | - | - | 341,220,675 |
| 2023 | 244,792,968 | 55,461,917 | - | - | 300,254,884 |
| 2024 | 222,145,352 | 44,063,180 | - | - | 266,208,531 |
| 2025 | 179,775,666 | 34,017,028 | - | - | 213,792,694 |
| 2026 | 143,740,390 | 25,559,629 | - | - | 169,300,019 |
| 2027 | 91,556,335 | 19,387,915 | - | - | 110,944,250 |
| 2028 | 27,846,181 | 16,316,319 | - | - | 44,162,500 |
| 2029 | 5,552,795 | 16,387,205 | - | - | 21,940,000 |
| 2030 | 5,094,854 | 16,100,146 | - | - | 21,195,000 |
| | $ 8,326,935,045 | $ 5,249,609,734 | $ 70,325,000 | $ 34,640,830 | $ 13,681,510,610 |

Note: Totals may not add due to rounding.

| (1) **Outstanding Bonds by Revenue Pledge** | **Principal** | **Interest** |
|---|---|---|
| (a) Prior Liens: Retail Sales Tax Revenues | $ 1,065,000 | $ 30,200 |
| (b) General State Revenues | 6,752,274,728 | 4,167,718,840 |
| (c) Motor Vehicle Fuel Tax | 1,573,595,317 | 1,081,860,694 |
| **Total Bonds Outstanding (after defeasance of the refunded bonds)** | $ 8,326,935,045 | $ 5,249,609,734 |
| (2) **December 4, 2002 Bond Offering** | | |
| (a) Series R-2003B, dated 12/4/2002 | $ 70,325,000 | $ 34,640,830 |
| **Total Current Offerings** | $ 70,325,000 | $ 34,640,830 |
| (3) **Total Bonds Outstanding Following December 4, 2002 Offering** | $ 8,397,260,045 | $ 5,284,250,564 |

(4) Interest payments are only estimates and are subject to change from time to time as market conditions change.

## SCHEDULE NO. 2

# SUMMARY - DEBT STRUCTURE BY REVENUE PLEDGE

**(thousands of dollars)**

| | 6/30/1999 | | 6/30/2000 | | 6/30/2001 | | 6/30/2002 | | 12/4/2002 [1] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **General Obligation** | **Limited Obligation** | **General Obligation** | **Limited Obligation** | **General Obligation** | **Limited Obligation** | **General Obligation** | **Limited Obligation** | **General Obligation** | **Limited Obligation** |
| **Outstanding** | | | | | | | | | | |
| General State Revenues and Components | | | | | | | | | | |
| General State Revenues | $ 5,842,971 | $ ------ | $ 6,277,518 | $ ------ | $ 6,540,745 | $ ------ | $ 6,786,804 | $ ------ | $ 6,752,275 | $ ------ |
| Retail Sales Tax Revenue | 4,325 | ------ | 3,425 | ------ | 2,485 | ------ | 1,490 | ------ | 1,065 | ------ |
| Subtotal | $ 5,847,296 | $ ------ | $ 6,280,943 | $ ------ | $ 6,543,230 | $ ------ | $ 6,788,294 | $ ------ | $ 6,753,340 | $ ------ |
| Motor Vehicle Fuel Tax Revenue | $ 1,035,315 | $ ------ | $ 997,215 | $ ------ | $ 1,135,885 | $ ------ | $ 1,395,980 | $ ------ | $ 1,643,920 | $ ------ |
| Land Grant and Parking Revenues | ------ | 1,170 | ------ | | ------ | | ------ | | ------ | ------ |
| Total | $ 6,882,611 | $ 1,170 | $ 7,278,158 | $ ------ | $ 7,679,115 | $ ------ | $ 8,184,274 | $ ------ | $ 8,397,260 | $ ------ |
| **Grand Total - Outstanding** | $6,883,781 | | $7,278,158 | | $7,679,115 | | $8,184,274 | | $8,397,260 | |
| **Annual Debt Service Requirements** | | | | | | | | | | |
| **Fiscal Year** | $694,076 | | $736,210 | | $789,213 | | $825,972 | | $840,788 | |
| **Authorized -- Unissued** | | | | | | | | | | |
| General State Revenues and Components | | | | | | | | | | |
| General State Revenues | $ 2,003,136 | $ ------ | $ 1,259,883 | $ ------ | $ 1,697,723 | $ ------ | $ 1,196,003 | $ ------ | $ 1,011,548 | $ ------ |
| Retail Sales Tax Revenue | ------ | ------ | ------ | ------ | ------ | ------ | ------ | ------ | ------ | ------ |
| Subtotal | $ 2,003,136 | $ ------ | $ 1,259,883 | $ ------ | $ 1,697,723 | $ ------ | $ 1,196,003 | $ ------ | $ 1,011,548 | $ ------ |
| Motor Vehicle Fuel Tax Revenue | 2,436,820 | ------ | 2,409,820 | ------ | 2,253,275 | ------ | 1,915,200 | ------ | 1,617,325 | ------ |
| Total | $ 4,439,956 | $ ------ | $ 3,669,703 | $ ------ | $ 3,950,998 | $ ------ | $ 3,111,203 | $ ------ | $ 2,628,873 | $ ------ |
| **Grand Total - Unissued** | $4,439,956 | | $3,669,703 | | $3,950,998 | | $3,111,203 | | $2,628,873 | |
| **Issued (New Money and Refunding)** | | | | | | | | | | |
| **Fiscal Year** | $711,367 | | $874,563 | | $1,345,245 | | $1,017,470 | | $1,159,155 | |

(1) Includes current offering dated December 4, 2002 -- after defeasance of the Refunded Bonds.

Note: Totals may not add due to rounding

## SCHEDULE NO. 3

### TOTAL DEBT SERVICE REQUIREMENTS [1]
### by Pledge of Revenues

| Fiscal Year Ending June 30th | General State Revenues (or Components) | Motor Vehicle Fuel Tax Revenues | Total Principal | Total Interest | Total Debt Service Requirements |
|---|---|---|---|---|---|
| 2003 | $690,213,986 | $150,573,699 | $423,788,923 | $416,998,761 | $840,787,684 |
| 2004 | 667,998,984 | 145,839,094 | 392,485,451 | 421,352,627 | 813,838,078 |
| 2005 | 664,941,069 | 143,570,767 | 402,172,976 | 406,338,859 | 808,511,835 |
| 2006 | 648,582,694 | 140,675,606 | 406,309,229 | 382,949,070 | 789,258,299 |
| 2007 | 646,881,339 | 140,217,013 | 420,433,126 | 366,665,226 | 787,098,352 |
| 2008 | 637,379,805 | 134,500,832 | 428,664,536 | 343,216,101 | 771,880,637 |
| 2009 | 611,434,303 | 134,229,293 | 421,469,498 | 324,194,098 | 745,663,595 |
| 2010 | 579,461,756 | 123,712,458 | 397,756,449 | 305,417,765 | 703,174,214 |
| 2011 | 544,950,874 | 113,185,083 | 372,777,296 | 285,358,661 | 658,135,957 |
| 2012 | 523,370,121 | 107,854,258 | 361,210,825 | 270,013,554 | 631,224,379 |
| 2013 | 517,259,455 | 109,077,306 | 379,724,260 | 246,612,501 | 626,336,761 |
| 2014 | 508,118,002 | 110,956,009 | 396,522,703 | 222,551,308 | 619,074,011 |
| 2015 | 520,285,212 | 110,909,882 | 419,824,450 | 211,370,644 | 631,195,094 |
| 2016 | 519,230,537 | 112,622,982 | 428,307,462 | 203,546,057 | 631,853,519 |
| 2017 | 507,679,919 | 114,526,768 | 419,982,401 | 202,224,286 | 622,206,687 |
| 2018 | 461,705,750 | 112,966,018 | 395,006,529 | 179,665,239 | 574,671,768 |
| 2019 | 421,377,230 | 111,894,583 | 370,987,673 | 162,284,141 | 533,271,814 |
| 2020 | 386,669,694 | 110,327,671 | 347,824,786 | 149,172,579 | 496,997,365 |
| 2021 | 304,141,951 | 99,708,891 | 298,788,504 | 105,062,338 | 403,850,842 |
| 2022 | 246,687,663 | 94,533,013 | 273,092,353 | 68,128,322 | 341,220,675 |
| 2023 | 219,733,859 | 80,521,025 | 244,792,968 | 55,461,917 | 300,254,884 |
| 2024 | 192,006,966 | 74,201,566 | 222,145,352 | 44,063,180 | 266,208,531 |
| 2025 | 141,628,034 | 72,164,659 | 179,775,666 | 34,017,028 | 213,792,694 |
| 2026 | 99,216,531 | 70,083,488 | 143,740,390 | 25,559,629 | 169,300,019 |
| 2027 | 55,423,375 | 55,520,875 | 91,556,335 | 19,387,915 | 110,944,250 |
| 2028 | 12,822,750 | 31,339,750 | 27,846,181 | 16,316,319 | 44,162,500 |
| 2029 | 0 | 21,940,000 | 5,552,795 | 16,387,205 | 21,940,000 |
| 2030 | 0 | 21,195,000 | 5,094,854 | 16,100,146 | 21,195,000 |
| Total | $11,329,201,858 | $2,848,847,587 | $8,677,633,968 | $5,500,415,476 | $14,178,049,445 |

(1) Includes current offering dated December 4, 2002 -- after defeasance of the Refunded Bonds.

Note: Totals may not add due to rounding

# SELECTED DEBT RATIOS

## Debt Ratios

| Year | State Debt Per Capita | State Debt/ Personal Income (Percentage) | Total Debt Service/ Personal Income (Percentage) | State Debt/ Market Value Taxable Property (Percentage) |
|---|---|---|---|---|
| 1998 | $ 1,129.95 | 3.98% | 0.43% | 1.67% |
| 1999 | 1,183.83 | 3.96% | 0.42% | 1.65% |
| 2000 | 1,247.83 | 3.94% | 0.42% | 1.62% |
| 2001* | 1,286.49 | 4.03% | 0.43% | 1.56% |
| 2002* | 1,389.68 | 4.30% | 0.43% | 1.58% |

*Factors for the Debt Ratios*

| Year | Population (1) (000) | Personal Income (2) (000,000) | Debt Service (3) (000) | Market Value Taxable Property (4) (000) | State Debt (5) (000) |
|---|---|---|---|---|---|
| 1998 | 5,750.00 | $ 163,192 | $ 694,076 | $ 389,446,412 | $ 6,497,199 |
| 1999 | 5,830.80 | 174,432 | 736,210 | 419,424,340 | 6,902,685 |
| 2000 | 5,894.10 | 186,495 | 789,213 | 452,962,015 | 7,354,860 |
| 2001* | 5,974.90 | 190,828 | 825,972 | 492,681,068 | 7,686,649 |
| 2002* | 6,042.60 | 195,382 | 840,788 | 532,296,068 | 8,397,260 |

(1) Population -- Office of the Forecast Council, "Washington Economic and Revenue Forecast September 2002," Table A5.1.
(2) Personal Income -- Office of the Forecast Council, "Washington Economic and Revenue Forecast September 2002," Table A3.3.
(3) Debt Service -- Reported by the State Finance Committee for the ensuing fiscal year.
(4) True and fair market value (100%) as reported by the Department of Revenue for state taxes due and payable in calendar years 1995 through 2000 -- Department of Revenue, "Tax Statistics 2001," Table 38. Under current law, business inventories are exempt from any property tax.
(5) State Debt -- Reported by the Office of State Treasurer for December 31 each year. Outstanding as of December 4, 2002.
* Estimate.

## State Bonded Debt by Source of Payments

| | | |
|---|---|---|
| General Obligation | | |
| Payable from General State Revenues ............................... | $5,613,132,253 (1) | |
| First Payable from Other Sources ...................................... | 2,784,127,792 (2) | |
| Limited Obligation ................................................................. | 0 | $8,397,260,045 |

| | General Obligation Debt: Payable From General State Revenues | General Obligation Debt: First Payable from Other Sources | Total State Bonded Debt |
|---|---|---|---|
| Debt to True Market Value.......................... | 1.34% | 0.66% | 2.00% |
| Per Capita Debt........................................... | $928.93 | $460.75 | $1,389.68 |

(1) Outstanding bonds as of December 4, 2002.
(2) Certain state general obligation bonds are payable first from sources other than general state revenues ($1,140,207,475 from tuition fees, patient fees, admissions taxes, parking taxes, certain King County sales and use taxes, or hotel and motel taxes) and are additionally, full faith and credit obligations of the state.

## OTHER OBLIGATIONS

### Workers' Compensation Program

The Workers' Compensation Program insures approximately 70 percent of the work force in the state, excluding self-insured employers and their employees, against work-related accidents and medical claims. The program has three main components: Accident, Medical Aid and Supplemental Pension. Accident Fund premiums are paid by employers while premiums for the Medical Aid and Supplemental Pension Funds are shared equally by employers and employees. A separate pension fund sufficient to pay future pension obligations is established in the Accident Fund and not through separate premium assessments. The Supplemental Pension component covers both state fund and self-insured employees. The Accident, Medical Aid and Pension components are designed to be self-sustaining; assets are accumulated to fund future benefits.

The Supplemental Pension Fund was adopted by the Legislature in 1973 to provide inflation adjustment payments for time lost for the temporarily disabled and pension benefits for the permanently disabled. This plan operates on a current, "pay-as-you-go" basis. GAAP formerly required those liabilities be recorded as long-term debt and allowed expected employer and employee contributions to be shown as an asset. GASB now requires the Supplemental Cost of Living Benefit to be characterized as an obligation of the Workers' Compensation Fund, a special enterprise fund, but does not permit employer and employee future contributions to be shown as an offsetting asset. This accounting change has no impact on the fund's liability to pay supplemental cost of living benefits, nor does it affect its ability to make those payments. The potential future liability of the fund to pay all claims for Supplemental Cost of Living Benefits for all employees is estimated to be $4.5 billion; however, the state's obligation to its own employees is substantially lower, and the state anticipates contributions from the private sector will be sufficient to satisfy all liabilities for nonpublic employees.

### Lease Commitments

The state has approximately ten million square feet of leased office, educational, laboratory, and warehouse space throughout the state occupied under 1,125 operating leases totaling $65 million annually. According to the State Department of General Administration, the agency responsible for negotiating the real estate lease rental contracts, the maximum requirement for any one lease currently committed is $3.9 million each year.

## Certificates of Participation/Financing Contracts

The following table displays outstanding state certificates of participation/financing contracts as of November 1, 2002.

| | Outstanding | 2001-2003 Debt Service Requirement | Final Maturity |
|---|---|---|---|
| State Equipment Series C, 1994 | $ 740,000 | $ 1,038,171 | 2004 |
| Master Installment Program, 1993 | 18,690,962 | 10,212,085 | 2016 |
| Equipment Series, Competitive | 70,330,843 | 42,236,499 | 2014 |
| Local Real Estate | 5,735,000 | 994,605 | 2017 |
| Bellingham Technical College Classroom Additions | 245,000 | 94,838 | 2008 |
| Whatcom, Columbia Basin and Yakima CC, 2000A | 5,005,000 | 810,930 | 2020 |
| Bates Purch of Land and Improvement KBTC TV | 3,730,000 | 646,673 | 2020 |
| Edmonds Community College | 3,930,000 | 744,921 | 2018 |
| Combined CC's 2001 A | 6,565,000 | 1,486,416 | 2017 |
| Combined CC's 2001 B | 7,030,000 | 1,125,413 | 2015 |
| Work/Release Financing Agreement | 125,000 | 260,270 | 2003 |
| State Department of Corrections, 1998 | 2,274,488 | 850,775 | 2009 |
| Department of Correction Spokane- Brownstone | 2,955,000 | 309,820 | 2021 |
| State Department of Ecology, 1991 | 27,820,000 | 4,917,325 | 2016 |
| Department of Ecology 2001 Refunding | 44,215,000 | 7,324,762 | 2012 |
| State Department of Licensing, 1998 | 6,205,000 | 1,114,840 | 2018 |
| State Department of Transportation, 1999 | 7,820,000 | 5,644,385 | 2005 |
| Department of Veterans Administration | 3,950,000 | 339,770 | 2016 |
| Tacoma Co-location Project, Series 1996 | 14,235,000 | 2,597,458 | 2020 |
| State Department of General Administration, 1999A | 9,685,000 | 1,418,328 | 2022 |
| State Department of General Administration, 1999B | 8,080,000 | 1,474,343 | 2019 |
| Kelso Building and Land, 2000 | 4,365,000 | 860,441 | 2015 |
| Pierce College Classroom Building | 515,000 | 195,694 | 2008 |
| Cama Beach Historical Cabins | 0 | 0 | 2016 |
| Parks and Recreation Fort Worden | 145,000 | 78,400 | 2006 |
| Seattle Community College Parking Lot Refinancing | 0 | 231,313 | 2002 |
| South Puget Sound Community College, 1999 | 4,835,000 | 898,669 | 2020 |
| UW, Sand Point Bldg 29 | 4,850,000 | 195,539 | 2016 |
| University of Washington, 1999 | 10,425,000 | 2,179,560 | 2021 |
| University of Washington, 2001 | 1,555,000 | 193,200 | 2021 |
| University of Washington, 2001B | 6,030,000 | 458,337 | 2022 |
| University of Washington, 2001C | 5,170,000 | 714,185 | 2013 |
| UW, Sandpoint Phase 2B | 3,565,000 | 173,718 | 2022 |
| UW, Sand Point Bldg 5 Phase IIC 2002E | 2,685,000 | 0 | 2023 |
| Whatcom Community College Child Care Center | 695,000 | 162,833 | 2013 |
| State Convention and Trade Center Expansion | 181,590,000 | 21,732,519 | 2017 |
| Liquor Control Board Distribution Center, 1996 | 13,625,000 | 5,590,200 | 2010 |
| Port Angeles Office Building | 465,000 | 116,748 | 2012 |
| Central Washington Snoqualmie Hall at Edmonds | 5,145,000 | 79,797 | 2023 |
| General Administration Isabella Bush Building | 3,855,000 | 68,226 | 2018 |
| Washington State University, 1996 | 7,130,000 | 1,615,919 | 2017 |
| Total Certificates of Participation/Financing Contracts | $ 506,011,293 | $ 121,187,923 | |

The 1989 Legislature authorized financing contracts for personal and real property. The state currently has in place a program that provides for the financing of equipment and real estate projects by competitive sale of certificates of participation in master financing contracts. The state's obligations are subject to appropriation.

## State Unemployment Compensation Fund

Currently, unemployed workers are entitled to up to 30 weeks of regular unemployment insurance benefits, with a maximum state liability of $14,880 per unemployed worker. The maximum and minimum weekly benefit amounts payable are defined as percentages of the state's average weekly wage in covered employment. The maximum is now $496; the minimum is $107.

Legislative changes in 1984 improved the revenue-generating capacity of the unemployment insurance financing provisions. Collections under prior law could only meet the average annual benefit costs of the state's benefit provisions, and the reserve fund level (fund balance as a percent of total wages) could increase only during periods of low unemployment.

The experience rating system enacted in 1984 provided for six tax schedules with average yields ranging from 2.3 percent to 4.0 percent of taxable wages, depending on the reserve fund level. Each schedule has a maximum tax rate of 5.4 percent to conform to federal requirements. The highest tax schedule is in effect when the reserve fund level is below one percent of total wages, which was the case in 1985, 1986 and 1987. Growth in the trust fund triggered tax schedules with lower yields. The lowest tax schedule was in effect from 1990 through 1993. The reserve fund level continued to increase until June 30, 1993, after which it decreased slightly from 4.4 percent to 4.2 percent.

The 1993 Legislature concluded that the trust fund level was higher than necessary. In 1993, the Legislature enacted the new, lower tax schedule AA, and the 1995 Legislature enacted lower trust fund controls.

**UNEMPLOYMENT COMPENSATION FUND**
**(Dollars in Millions)**

| | Beginning Balance | Receipts | Disbursements | June 30 Balance Dollars | June 30 Balance Percent* |
|---|---|---|---|---|---|
| FY 1992 | $ 1,635 | $ 676 | $ 601 | $ 1,710 | 4.4% |
| FY 1993 | 1,710 | 684 | 646 | 1,748 | 4.2 |
| FY 1994 | 1,748 | 688 | 845 | 1,591 | 3.7 |
| FY 1995 | 1,591 | 674 | 813 | 1,452 | 3.2 |
| FY 1996 | 1,452 | 682 | 815 | 1,319 | 2.7 |
| FY 1997 | 1,319 | 765 | 728 | 1,356 | 2.6 |
| FY 1998 | 1,356 | 852 | 691 | 1,517 | 2.6 |
| FY 1999 | 1,517 | 921 | 816 | 1,622 | 2.4 |
| FY 2000 | 1,622 | 1,109 | 799 | 1,932 | 2.6 |
| FY 2001 | 1,932 | 1,029 | 1,051 | 1,910 | 2.4 |

* As a percent of total wages for the preceding calendar year.

**State Retirement Systems**

The table below presents details regarding liabilities and assumptions of the Washington State Retirement System Funds. These retirement plans are defined benefit plans, providing monthly cash payments in accordance with a specific schedule but providing neither pre-retirement nor post-retirement medical benefits. The benefit amount may be determined by a combination of service and/or salary. The state also participates in the Judicial Retirement System and the Volunteer Fire-Fighter System, which are minor in relation to those illustrated.

The Office of the State Actuary is overseen by a special committee of the Legislature and performs all actuarial services for the Department of Retirement Systems, including all studies required by law. The tables included hereunder have been reviewed by the State Actuary and will be subject to revision at subsequent dates.

The pertinent items disclosed below are as follows:

(i) *Contribution Rates.* These are rates of contribution developed based upon the 2000 valuations, expressed as a percentage of the active members' compensation.

(ii) *Unfunded Actuarial Present Value of Fully Projected Benefits.* This is the unfunded actuarial present value of the state's total commitment to pensions, including the unfunded actuarial present value of benefits accrued to date for active, inactive and retired members, and the actuarial present value of projected future accruals for active members. (Contribution rates are derived from this data.)

(iii) *Unfunded Actuarial Present Value of Credited Projected Benefits.* This is the amount by which liabilities exceed assets. Liabilities are calculated by the Credited Projected Benefits Method. Benefits are projected to retirement, including future salary increases but only service earned to date.

(iv) *Funding Ratio.* The Funding Ratio is assets divided by liabilities. Liabilities are calculated by the Credited Projected Benefits Method.

(v) *Unfunded Actuarial Accrued Liability-Entry Age Cost Method.* This is a portion of the unfunded actuarial present value of fully projected benefits. The only significance of this item is in developing the contribution rates for the systems. Contributions toward the Unfunded Actuarial Accrued Liability have been developed as a level percentage of expected future payrolls. The current statute, chapter 41.45 RCW, requires the existing Unfunded Actuarial Accrued Liability, as well as future gains or losses, and benefit increases to be fully funded by the dates shown in the following table.

The Public Employees' Retirement System ("PERS"), the Teachers' Retirement System ("TRS"), the School Employees' Retirement System ("SERS"), and the Law Enforcement and Firefighters' Retirement System ("LEOFF") each include more than one plan. In the table below, contribution rates are shown for members entering before October 1, 1977 (Plan 1), and after October 1, 1977 (Plan 2). Plan 3 members do not make contributions to the Defined Benefit portion of the plan. SERS Plan 2/3 is composed of school employees hired on or after October 1, 1977, who were previously included in PERS Plan 2. School employees hired before October 1, 1977, remain in PERS Plan 1. A portion of the employer contribution for Plan 2/3 employees of SERS, PERS and TRS is contributed to the respective Plan 1.

At least once every six years, the State Actuary is required to perform studies in which the demographic assumptions used in each system are evaluated. These studies were performed for the 1989-94 period. As a result of these studies, significant changes were made in these assumptions and in the asset valuation method. The results shown below reflect the new assumptions.

The major economic assumptions used, developed and adopted by the Pension Funding Council, are as follows:

(i) ultimate rate of assumed investment return: 8.0 percent per annum;

(ii) general salary increases: 4.5 percent per annum;

(iii) rate of Consumer Price Index increase: 3.5 percent (where applicable).

## ACTUARIAL ASSUMPTIONS—RETIREMENT SYSTEMS
## (Dollars in Millions)

| | Public Employees[3] | | Teachers | | School Employees[3] | | Law Enforcement Officers and Firefighters | | State Patrol | System Totals [4] |
|---|---|---|---|---|---|---|---|---|---|---|
| Most Recent Valuation Date | 12/ 31/ 2000 | | 06/ 30/2000 | | 12/ 31/ 2000 | | 12/ 31/ 2000 | | 12/ 31/ 2000 | 2000 |
| Contribution Rates | (1) | (2) | (1) | (2) | (1) | (2) | (1) | (2) | | |
| State | 1.63% | 1.63% | 2.38% | 2.38% | NA | 1.63% | 0.00% | 1.61% | 0.00% | |
| Employee | 6.00% | 1.05% | 6.00% | 1.29% | NA | 0.46% | 0.00% | 4.02% | 2.00% | |
| Employer (Other than State) | 1.63% | 1.63% | 2.38% | 2.38% | NA | 1.63% | 0.00% | 2.41% | 0.00% | |
| Unfunded Actuarial Present Value of Fully Projected Benefits | $ 1,270 | | $ 1,438 | | $ 58 | | $ (564) | | $ (98) | $ 2,105 |
| Unfunded Actuarial Present Value of Credited Projected Benefits | $ (2,572) | | $ (1,592) | | $ (404) | | $ (2,361) | | $ (244) | $ (7,172) |
| Funding Ratio (Assets/Actuarial Present Value of Credited Projected Benefits | 129% | | 114% | | 170% | | 143% | | 152% | 127% |
| Unfunded Actuarial Accrued Liability (Entry Age Cost Method) | $ 452 | | $ 479 | | $ 0 | | $ (1,330) | | $ 0 | $ (399) |
| Contribution Rate [5] to Fund Unfunded Actuarial Accrued Liability (Entry Age Cost Method) | 0.58% | | 0.62% | | 0.58% | | NA | | NA | |
| Remaining Funding Period for Unfunded Actuarial Accrued Liability (Entry Age Cost Method) | June 30, 2024 | | June 30, 2024 | | June 30, 2024 | | NA | | NA | |

(1) Contribution rate for members entering system before October 1, 1977 (Plan 1).

(2) Contribution rate for members entering system after October 1, 1977 (applies to Plan 2 members, not Plan 3 members).

(3) The Public Employees Retirement System and School Employees Retirement System cover employees of the state and its political subdivisions as provided by statute. The figures shown above for unfunded Actuarial Present Value of Fully Projected Benefits, Unfunded Actuarial Present Value of Credited Projected Benefits, and Unfunded Actuarial Accrued Liability represent the state's portion only, approximately 53 percent of the total for these items. The contribution rate in respect of the Unfunded Actuarial Accrued Liability is paid by all employers, and all these contributions go into the Public Employees Retirement System Plan 1, which covers both public and school employees.

(4) Includes items from different valuation dates.

(5) Contribution rates are effective July 1, 2003.

*Source: Office of State Actuary*

## STATE CONTRIBUTIONS TO RETIREMENT SYSTEMS
## (Dollars in Thousands)

| Fiscal Year Ending June 30 | Public Employees (1) | Teachers (2) | School Employees (2) | Law Enforcement Officers and Firefighters (2) | Volunteer Firefighters (2)(3) | State Patrol(4) | Judicial (1)(2) |
|---|---|---|---|---|---|---|---|
| 1997 | 192,800 | 313,000 | N/A | 84,400 | 3,000 | 6,800 | 6,900 |
| 1998 | 212,600 | 317,200 | N/A | 70,500 | 2,000 | 5,900 | 8,800 |
| 1999 | 222,300 | 322,700 | N/A | 71,000 | 2,500 | 5,900 | 8,800 |
| 2000 | 146,700 | 258,300 | N/A | 17,100 | 2,700 | 0 | 7,300 |
| 2001 | 152,200 | 210,900 | 10,600 | 20,900 | 3,300 | 0 | 7,300 |

(1) State Agency Appropriations. Contributions commingled in each agency's operations budget.

(2) General Fund-State transfers. Prior to the 2000 valuation, school employees were members of PERS 2.

(3) Nonappropriated: volunteer firefighters receive 40 percent of state tax on fire insurance premiums.

(4) The retirement system for the State Patrol was actuarially fully funded for Fiscal Years 2000 and 2001 and required no state contribution at this time.

*Source: Office of State Actuary*

## ECONOMIC INFORMATION

This section provides certain information concerning the economic condition of the state. The demographic information and statistical data which are provided do not necessarily present all factors which may have a bearing on the state's fiscal and economic affairs.

### Overview

*Population.* The 2000 U.S. census count of the state's population was 5,894,121, or 21.1 percent more than the 4,866,700 counted in 1990.

The Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA") is the biggest single component of the state's economy, with a population of 2,414,616 in 2000, up 18.8 percent since 1990. King County and the adjacent counties to the north, Snohomish and Island Counties, comprise the Seattle PMSA, which is the fourth largest metropolitan center on the Pacific Coast. The city of Seattle, located in northwestern Washington, is the largest city in the Pacific Northwest and serves as the King County seat. The population trends of King County and the Seattle PMSA show continued growth at a higher rate than Seattle's, reflecting the stable economy of the area and the greater availability of residential construction sites outside Seattle.

In the eastern half of the state, population in the Spokane area grew to 417,939 in 2000, an increase of 15.7 percent over 1990, and the Yakima area's population increased to 222,581, growing by 17.9 percent since 1990.

*Infrastructure.* The state is the home of two full-facility sea ports, located in Seattle and Tacoma, and the Seattle-Tacoma International Airport ("Sea-Tac"). The state also is served by the federal interstate highway system and Union Pacific and Burlington Northern-Santa Fe railroads, as well as Amtrak passenger lines.

*Human Resources.* The concentration of technical, engineering, managerial, scientific, and other professional skills within the state's work force is due in part to the state's state-supported higher education system, which consists of two major universities, four regional universities and a system of community colleges. In addition, the state has 18 private colleges.

*Economic Base.* The economic base of the state includes manufacturing and service industries as well as agricultural and timber production. Industry sectors exhibiting growth include transportation, communication and utilities employment; finance, insurance and real estate; and services. Boeing, the state's largest private employer, is preeminent in aircraft manufacture and exerts a significant impact on overall state production, employment and labor earnings. The state ranks fourth among 12 leading states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms, including Microsoft Corporation. The state's leading export industries are aerospace, forest products, agriculture, and food processing.

## Population Characteristics

### COMPONENTS OF POPULATION CHANGE
### STATE OF WASHINGTON
### 1990—2000
### (Population Numbers in Thousands)

| | | Population Change | | Components of Change From Previous Period | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Births | | Deaths | | Natural | Net Migration | |
| April 1 | Population | Number | % | Number | % (1) | Number | % (1) | Increase | Number | % (1) |
| 1990 | 4,866.7 | 138.6 | 2.9 | 76.4 | 15.9 | 36.2 | 7.6 | 40.1 | 98.5 | 20.5 |
| 1991 | 5,000.4 | 133.7 | 2.7 | 79.1 | 16.0 | 36.6 | 7.4 | 42.5 | 91.2 | 18.5 |
| 1992 | 5,116.7 | 116.3 | 2.3 | 80.2 | 15.9 | 37.2 | 7.3 | 43.1 | 73.2 | 14.5 |
| 1993 | 5,240.9 | 124.2 | 2.4 | 79.1 | 15.3 | 39.4 | 7.6 | 39.7 | 84.5 | 16.3 |
| 1994 | 5,334.4 | 93.5 | 1.8 | 78.2 | 14.8 | 39.5 | 7.5 | 38.7 | 54.9 | 10.4 |
| 1995 | 5,429.9 | 95.5 | 1.8 | 77.4 | 14.7 | 39.9 | 7.4 | 37.5 | 58.0 | 10.8 |
| 1996 | 5,516.8 | 86.9 | 1.6 | 77.2 | 14.4 | 40.9 | 7.5 | 36.3 | 50.6 | 9.2 |
| 1997 | 5,606.8 | 90.0 | 1.6 | 77.0 | 13.8 | 41.5 | 7.5 | 35.5 | 54.5 | 9.8 |
| 1998 | 5,685.3 | 78.5 | 1.4 | 78.3 | 13.9 | 42.7 | 7.6 | 35.6 | 42.9 | 7.6 |
| 1999 | 5,757.4 | 72.1 | 1.3 | 77.8 | 13.6 | 43.2 | 7.5 | 34.7 | 37.4 | 6.5 |
| 2000 (2) | 5,803.4 | 46.0 | 0.8 | 79.9 | 13.8 | 43.9 | 7.6 | 36.0 | 10.0 | 1.7 |

(1) Rates are per 1,000 midpoint population and are computed on unrounded numbers.
(2) Estimates.

*Source: Office of Financial Management*

### DISTRIBUTION OF POPULATION BY AGE
### (Population Numbers in Thousands)

| | Washington State | | | | United States | | | |
|---|---|---|---|---|---|---|---|---|
| Age | 1980 Number | % of Total | 1990 Number | % of Total | 1980 Number | % of Total | 1990 Number | % of Total |
| Under 5 | 306 | 7.4 | 374 | 7.7 | 16,348 | 7.2 | 18,354 | 7.4 |
| 5 to 19 | 987 | 23.9 | 1,031 | 21.2 | 56,110 | 24.8 | 52,967 | 21.3 |
| 20 to 24 | 401 | 9.7 | 353 | 7.2 | 21,319 | 9.4 | 19,020 | 7.6 |
| 25 to 34 | 745 | 18.0 | 856 | 17.6 | 37,082 | 16.4 | 43,176 | 17.4 |
| 35 to 44 | 487 | 11.8 | 801 | 16.5 | 25,635 | 11.3 | 37,579 | 15.1 |
| 45 to 54 | 392 | 9.5 | 500 | 10.3 | 22,800 | 10.1 | 25,223 | 10.1 |
| 55 to 64 | 383 | 9.3 | 381 | 7.8 | 21,703 | 9.6 | 21,148 | 8.5 |
| 65 and over | 432 | 10.5 | 571 | 11.7 | 25,549 | 11.3 | 31,242 | 12.6 |

*Source: Office of Financial Management and the U.S. Bureau of Census*

### Income Characteristics

The following table provides a comparison of personal income for the state and the nation for the last ten years.

**PERSONAL INCOME COMPARISON**
**WASHINGTON AND U.S.**
**1992-2001**
**(Dollars in Billions)**

| | Current Dollars(1) | | | | 1996 Chained Dollars(2) | | | |
|---|---|---|---|---|---|---|---|---|
| | Washington | | United States | | Washington | | United States | |
| Year | Amount | Percent(4) | Amount | Percent(4) | Amount | Percent(4) | Amount | Percent(4) |
| 1992 | $112.6 | 7.5% | $5,390.4 | 6.0% | $122.9 | 4.3% | $5,883.1 | 2.9% |
| 1993 | 117.6 | 4.4 | 5,610.0 | 4.1 | 125.4 | 2.0 | 5,980.4 | 1.7 |
| 1994 | 123.3 | 4.9 | 5,888.1 | 5.0 | 128.9 | 2.8 | 6,152.2 | 2.9 |
| 1995 | 129.7 | 5.1 | 6,200.9 | 5.3 | 132.5 | 2.8 | 6,334.1 | 3.0 |
| 1996 | 139.3 | 7.4 | 6,547.4 | 5.6 | 139.3 | 5.2 | 6,547.3 | 3.4 |
| 1997 | 150.2 | 7.8 | 6,937.0 | 6.0 | 147.3 | 5.8 | 6,804.7 | 3.9 |
| 1998 | 163.2 | 8.6 | 7,426.0 | 7.0 | 158.4 | 7.5 | 7,207.5 | 5.9 |
| 1999 | 174.3 | 6.8 | 7,786.5 | 4.9 | 166.4 | | 7,435.2 | 3.2 |
| 2000 | 186.9 | 7.2 | 8,406.6 | 8.0 | 174.0 | | 7,828.1 | 5.3 |
| 2001(3) | 191.8 | 2.6 | 8,685.3 | 3.3 | 175.0 | | 7,927.4 | 1.3 |

(1) Current dollars: the actual price of something when it was bought, not adjusted for cost of living index (commonly called inflation).
(2) Chained dollars: created from the geometric mean of two growth calculations; allows for a comparison of data in a time series to accurately indicate growth or decline in indicators.
(3) As of November 2002.
(4) Percent change; annual rate.

*Source: Washington State Office of the Forecast Council and U.S. Department of Commerce, Bureau of Economic Analysis*

### Employment Characteristics

Washington's wage and salary employment growth is expected to remain at 2.0 percent in 2000 after declining in 1999 from 3.2 percent in 1998 and 4.1 percent in 1997. The next three tables give summaries of employment information.

**AVERAGE ANNUAL EMPLOYMENT[1]**
**RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT IN WASHINGTON STATE**
**(Employment Numbers in Thousands)**

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| **Resident Civilian Labor Force** | 2,983.3 | 3,037.9 | 3,074.6 | 3,045.3 | 2,995.7 |
| Unemployment | 142.1 | 144.6 | 145.4 | 157.8 | 191.6 |
| Unemployment Rate (2) | 4.8% | 4.8% | 4.7% | 5.2% | 6.4% |
| Total Employment | 2,841.2 | 2,893.3 | 2,929.2 | 2,887.5 | 2,804.1 |
| **Nonagricultural Wage and Salary Workers Employed in Washington State** | | | | | |
| Wage and Salary Employment | 2,514.2 | 2,594.7 | 2,648.7 | 2,711.5 | 2,696.4 |
| % Change | 4.1 | 3.2 | 2.1 | 2.4 | (0.6) |
| Durable Manufacturing Employment | 261.3 | 271.0 | 255.8 | 244.5 | 234.6 |
| % Change | 11.2 | 3.7 | (5.6) | (4.4) | (4.0) |
| Aerospace Employment | 105.0 | 112.4 | 98.9 | 86.1 | 86.8 |
| % Change | 21.6 | 7.1 | (12.0) | (12.9) | 0.8 |
| Lumber and Wood Employment | 35.6 | 34.2 | 33.9 | 33.3 | 31.1 |
| % Change | 1.2 | (4.1) | (0.7) | (1.8) | (6.6) |
| Electrical Machinery Employment | 17.0 | 18.5 | 18.5 | 20.3 | 19.2 |
| % Change | 11.0 | 8.8 | (0.3) | 10.0 | (5.4) |
| Nondurable Manufacturing Employment | 108.8 | 108.6 | 108.3 | 108.7 | 103.7 |
| % Change | (0.9) | (0.2) | (0.2) | 0.3 | (4.6) |
| Nonmanufacturing Employment | 2,144.2 | 2,215.1 | 2,284.6 | 2,358.3 | 2,358.0 |
| % Change | 3.5 | 3.3 | 3.1 | 3.2 | 0.0 |
| Construction Employment | 136.3 | 143.7 | 153.8 | 160.2 | 155.4 |
| % Change | 6.6 | 5.4 | 7.1 | 4.1 | (3.0) |
| Transportation, Communication, and Utilities Employment | 132.8 | 135.6 | 139.7 | 146.6 | 146.4 |
| % Change | 6.3 | 2.1 | 3.0 | 4.9 | (0.1) |
| Finance/Insurance/Real Estate | 127.7 | 134.6 | 137.6 | 137.5 | 140.7 |
| % Change | 3.0 | 5.4 | 2.2 | (0.1) | 2.4 |
| Services Employment | 678.8 | 709.3 | 739.7 | 781.9 | 773.0 |
| % Change | 4.6 | 4.5 | 4.3 | 5.7 | (1.1) |
| Retail Trade | 457.4 | 469.6 | 482.0 | 493.9 | 489.6 |
| % Change | 2.4 | 2.7 | 2.6 | 2.5 | (0.9) |
| Wholesale Trade | 149.6 | 153.1 | 154.1 | 151.3 | 144.1 |
| % Change | 3.6 | 2.3 | 0.7 | (1.8) | (4.8) |
| State and Local Government Employment | 390.2 | 398.8 | 406.9 | 413.6 | 437.4 |
| % Change | 2.1 | 2.2 | 2.0 | 1.6 | 5.8 |
| Federal Government Civilian Employment | 67.9 | 67.2 | 67.6 | 69.9 | 67.9 |
| % Change | (1.1) | (0.9) | 0.5 | 3.4 | (2.8) |

(1) Averages of monthly data. The 2001 figures are based upon the November 2002 Forecast.
(2) Unemployment rate as of June 2002 estimated at 7.2%.

*Source: Washington State Office of the Forecast Council*

## COMPARISON OF EMPLOYMENT TRENDS BY INDUSTRY SECTOR (%) [1]

| | State | | United States | |
|---|---|---|---|---|
| | 1992 | 2001 | 1992 | 2001 |
| **Manufacturing** | | | | |
| Nondurable Manufacturing | | | | |
| Food and Kindred | 1.7 | 1.5 | 1.5 | 1.3 |
| Pulp and Paper | 0.8 | 0.6 | 0.6 | 0.5 |
| Apparel | 0.4 | 0.3 | 1.7 | 0.8 |
| Printing | 1.0 | 0.9 | 1.4 | 1.1 |
| Other | 0.7 | 0.7 | 2.0 | 1.6 |
| Subtotal | 4.6 | 3.8 | 7.2 | 5.4 |
| Durable Manufacturing | | | | |
| Lumber and Wood | 1.6 | 1.2 | 0.6 | 0.6 |
| Metals | 1.0 | 0.9 | 1.9 | 1.6 |
| Machinery | 1.4 | 1.6 | 3.2 | 2.8 |
| Transportation Equipment | 5.6 | 3.7 | 1.7 | 1.3 |
| Instruments | 0.6 | 0.5 | 0.9 | 0.6 |
| Other | 0.8 | 0.8 | 1.3 | 1.1 |
| Subtotal | 11.1 | 8.7 | 9.5 | 8.1 |
| Total Manufacturing | 15.6 | 12.5 | 16.7 | 13.4 |
| **Nonmanufacturing** | | | | |
| Mining | 0.2 | 0.1 | 0.6 | 0.4 |
| Construction | 5.4 | 5.8 | 4.1 | 5.1 |
| Transportation, Communication, Utilities | 5.1 | 5.4 | 5.3 | 5.4 |
| Trade | 24.2 | 23.5 | 23.3 | 23.0 |
| Services | 25.1 | 28.7 | 26.7 | 31.1 |
| Finance, Real Estate and Insurance | 5.4 | 5.2 | 6.1 | 5.8 |
| State and Local Government | 15.8 | 16.2 | 14.4 | 13.9 |
| Federal Government | 3.3 | 2.5 | 2.7 | 2.0 |
| Total Nonmanufacturing | 84.4 | 87.5 | 83.3 | 86.6 |
| Total [2] | 100.0 | 100.0 | 100.0 | 100.0 |

(1) Figures are calculated as a percentage of total wage and salary employment.

(2) Numbers may not add due to rounding.

*Source: 2001 figures are based on the November 2002 Forecast of the Office of the Forecast Council.*

### ANNUAL AVERAGE CIVILIAN LABOR FORCE, UNEMPLOYMENT AND UNEMPLOYMENT RATES FOR WASHINGTON AND THE UNITED STATES
### 1993-2001
### (Employment Numbers in Thousands)

| | Civilian Labor Force | | Number of Unemployed | | Unemployment Rate | | Wash. Unemployment as Percent of U.S. |
|---|---|---|---|---|---|---|---|
| **Year** | **Wash.** | **U.S.** | **Wash.** | **U.S.** | **Wash.** | **U.S.** | **Rate** |
| 1993 | 2,701 | 130,479 | 206 | 9,013 | 7.6 | 6.9 | 110.4 |
| 1994 | 2,707 | 132,763 | 174 | 8,097 | 6.4 | 6.1 | 105.2 |
| 1995 | 2,804 | 134,506 | 179 | 7,521 | 6.4 | 5.6 | 113.9 |
| 1996 | 2,874 | 136,549 | 187 | 7,384 | 6.5 | 5.4 | 120.2 |
| 1997 | 2,983 | 138,957 | 142 | 6,865 | 4.8 | 4.9 | 96.4 |
| 1998 | 3,038 | 140,800 | 145 | 6,347 | 4.8 | 4.5 | 105.6 |
| 1999 | 3,075 | 142,578 | 145 | 6,024 | 4.7 | 4.2 | 111.9 |
| 2000 | 3,045 | 144,454 | 158 | 5,802 | 5.2 | 4.0 | 129.0 |
| 2001* | 2,996 | 145,501 | 192 | 6,973 | 6.4 | 4.8 | 133.6 |

* The 2001 figures are based on the November 2002 forecast.

*Source: Washington State Office of the Forecast Council and the U.S. Dept. of Labor, Bureau of Labor Statistics*

*Companies.* The following two tables provide information on the top companies in the state, ranked by revenues.

### WASHINGTON'S TWENTY-FIVE LARGEST PUBLIC COMPANIES, RANKED BY 2000 REVENUES (in Millions)

| | | Revenues | | | Revenues |
|---|---|---|---|---|---|
| 1. | The Boeing Co. | $51,321 | 14. | Starbucks Coffee Co. | $2,169 |
| 2. | Costco Cos. Inc. | 32,164 | 15. | VoiceStream Wireless Corp. | 1,923 |
| 3. | Microsoft Corp. | 23,000 | 16. | Potlatch Corp. | 1,809 |
| 4. | Weyerhaeuser | 15,980 | 17. | Expeditors International Inc. | 1,700 |
| 5. | Washington Mutual | 15,760 | 18. | AT&T Wireless Group | 1,045 |
| 6. | Paccar Inc. | 7,919 | 19. | Labor Ready Inc. | 977 |
| 7. | Avista | 7,911 | 20. | Longview Fibre Co. | 876.3 |
| 8. | Safeco Corp | 7,118 | 21. | Immunex Corp. | 862 |
| 9. | Nordstrom Inc. | 5,528 | 22. | Western Wireless Corp. | 835 |
| 10. | Puget Sound Energy Inc. | 3,442 | 23. | Zones Inc. | 634 |
| 11. | Airborne Express | 3,276 | 24. | Washington Federal Savings | 509 |
| 12. | Amazon.com Inc. | 2,762 | 25. | Esterline Technologies Corp. | 491 |
| 13. | Alaska Air Group Inc. | 2,177 | | | |

*Source: Puget Sound Business Journal 2002 Book of Lists*

**WASHINGTON COMPANIES IN FORTUNE 500 IN 2001**
**(Dollars in Millions)**

| | Company | Rank | Revenues | Headquarters/Location |
|---|---|---|---|---|
| 1. | The Boeing Co. | 16 | $ 58,198 | Seattle |
| 2. | Costco Cos. Inc. | 44 | 34,797 | Issaquah |
| 3. | Microsoft Corp. | 72 | 25,296 | Redmond |
| 4. | Washington Mutual Inc. | 116 | 17,692 | Seattle |
| 5. | Weyerhaeuser Co. | 140 | 14,545 | Federal Way |
| 6. | Safeco Corp. | 267 | 6,953 | Seattle |
| 7. | Paccar Inc. | 295 | 6,089 | Bellevue |
| 8. | Avista | 299 | 6,021 | Spokane |
| 9. | Nordstrom Inc. | 314 | 5,634 | Seattle |
| 10. | Puget Sound Energy | 464 | 3,374 | Bellevue |
| 11. | Airborne Freight Corp. | 479 | 3,211 | Seattle |

*Source: Fortune Magazine Fortune 500, April 2002*

## Annual Retail Sales Activity

The state is home to a number of specialty retail companies that have reached national stature, including Nordstrom, Eddie Bauer, Costco, and Recreational Equipment Inc. The following table provides a history of retail sales activity in the state.

**FISCAL YEAR RETAIL SALES ACTIVITY 1996-2000**
**(Dollars in Billions)**

| Fiscal Year | Washington | % Change | United States | % Change |
|---|---|---|---|---|
| 1996 | 62.8 | 1.5 | 2,429.0 | 5.2 |
| 1997 | 66.7 | 6.2 | 2,555.1 | 5.2 |
| 1998 | 72.1 | 8.1 | 2,674.5 | 4.7 |
| 1999 | 77.2 | 7.1 | 2,856.0 | 6.8 |
| 2000 | 83.4 | 8.0 | 3,135.0 | 9.8 |

*Source: Washington State Office of the Forecast Council and the U.S. Department of Commerce.*

## Trade

One in six jobs in the state is related to international trade. The state, particularly the Puget Sound corridor, is a trade center for the Northwest and the state of Alaska. During the past 20 years, the state consistently has ranked number one or number two in the nation in international exports per capita.

*Ports.* The Ports of Seattle and Tacoma serve as one of the three major gateways for marine commerce into the United States from the Pacific Rim, and each rank among the top 20 ports in the world based upon volume of containerized cargo shipped. The ten largest shipping lines in the world call at these ports, and on a combined basis, these ports rank as the second-largest load center for the shipment of containerized cargo in the United States.

Approximately 70 percent of the cargo passing through the Ports of Seattle and Tacoma has an ultimate destination outside of the Pacific Northwest. Therefore, trade levels depend largely on national and world economic conditions, rather than local economic conditions.

*Airport.* The city of Seattle is the commercial center for the state and is near a major international airport, Sea-Tac, which has scheduled passenger service by 15 major/national, three regional/commuter and ten foreign flag carriers. In addition, 16 all-cargo carriers have scheduled cargo service at Sea-Tac. Sea-Tac is the 23rd busiest airport in the nation for aircraft operations and the 20th busiest cargo airport.

### Manufacturing

The state's manufacturing base includes aircraft manufacture, with the aerospace industry currently representing approximately eight percent of all taxable business income generated in the state. Boeing is the world's leading manufacturer of commercial airliners and, as of June 2002, employed approximately 65,300 people state-wide and 173,000 around the world. In September 2001, the company relocated its corporate headquarters to Chicago, Illinois, a move that affects approximately one-half of the 1,000 people who currently work in the Seattle location.

The following table shows the record of sales and earnings reported by Boeing for the last five years:

| Year | Sales (Billions) * | Earnings (Millions) |
|---|---|---|
| 1997 | $ 45.8 | $ (178) |
| 1998 | 56.2 | 1,120 |
| 1999 | 58.0 | 2,309 |
| 2000 | 51.3 | 2,128 |
| 2001 | 58.2 | 2,827 |

* Includes firm orders; excludes options, orders without signed contracts, and orders from firms that have filed for bankruptcy.

*Source: The Boeing Company*

While Boeing has dominated manufacturing employment, other manufacturers also have experienced growth, thus reducing Boeing's percentage of total manufacturing jobs in the state.

### Technology-Related Industries

The most significant growth in manufacturing jobs, exclusive of aerospace, has occurred in high technology-based companies. The state ranks fourth among all states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms; nearly 50 percent of these firms are computer-related businesses. Microsoft, which is headquartered in Redmond, Washington, is the largest microcomputer software company in the world. Microsoft's fiscal year 2002 revenues were $28.4 billion, compared to $25.3 billion in fiscal year 2001.

### Services/Tourism

As the business, legal and financial center of the state, Seattle ranks ninth in the country in the number of downtown hotel rooms (7,600 rooms in 50 hotels and motels). The Washington State Convention and Trade Center opened in June 1988, with the capacity for events involving as many as 11,000 people. An expansion of the Convention and Trade Center that doubled the exhibition space and added a private office tower, hotel and museum was completed in 2001.

### Timber

Natural forests cover more than 40 percent of the state's land area. Forest products rank second behind aerospace in value of total production. The Weyerhaeuser Company is the state's largest forest products employer.

A continued decline in overall production during the next few years is expected due to federally imposed limitations on the harvest of old-growth timber and the inability to maintain the recent record levels of production increases. The decline is not expected to have a significant effect on the state's overall economic performance.

### Agriculture and Food Processing

Agriculture, combined with food processing, is the state's most important industry. The state's major products—wheat, apples, milk, and cattle—comprise more than half of total production. The values and uses of farmland in the state are expected to change in the future, with the listing of local salmon runs as endangered by the U.S. Environmental Protection Agency.

### Finance/Insurance/Real Estate

Employment in the finance, insurance and real estate areas is estimated to represent 5.4 percent of the state's wage and salary employment for 2002.

### Construction

Construction employment experienced positive growth through 1998, but has declined in recent years. Commercial building remains stable.

In 2000-2001, residential housing permits decreased by about two percent. Forecasts for 2002 indicate a decrease of about two percent from 2001, as indicated in the following table.

**HOUSING UNITS AUTHORIZED IN WASHINGTON AND THE UNITED STATES**
**1993—2002**

| Calendar Year | Washington | United States (1) |
|---|---|---|
| 1993 | 41,342 | 1,291,583 |
| 1994 | 44,034 | 1,446,000 |
| 1995 | 38,160 | 1,361,000 |
| 1996 | 39,597 | 1,468,667 |
| 1997 | 41,089 | 1,474,583 |
| 1998 | 45,727 | 1,621,167 |
| 1999 | 42,752 | 1,647,250 |
| 2000 | 39,021 | 1,573,333 |
| 2001 | 38,345 | 1,602,750 |
| 2002 (2) | 39,928 | 1,636,614 |

(1) Actual housing starts prior to current year.
(2) 2002 figures are based on the November 2002 forecast.

Source: *Washington State Office of the Forecast Council and the Department of Commerce*

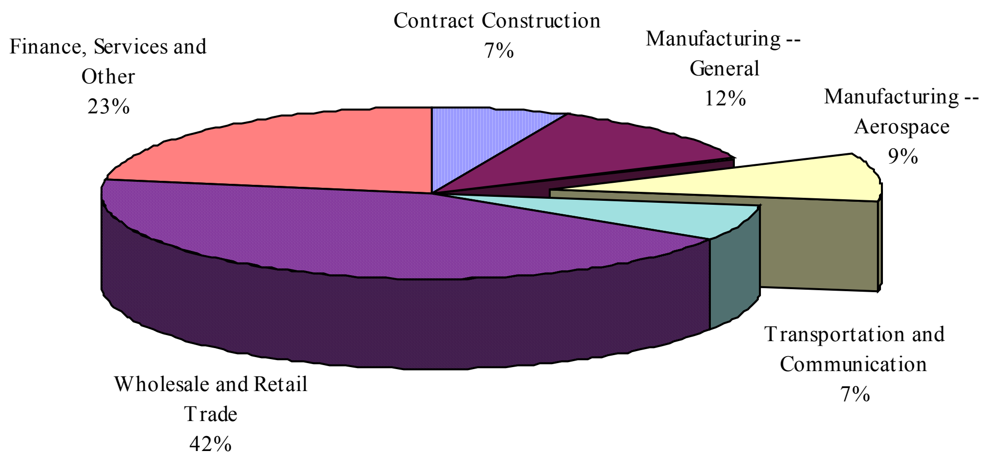
### Federal, State and Local Government

On a combined basis, employment in the government sector represents approximately 18.7 percent of all wage and salary employment in the state. Seattle is the regional headquarters of a number of federal government agencies, and the state receives an above-average share of defense expenditures.

### Summary

The following diagram provides an overall description of business income by industry sector for 2001.

## Gross Business Income by Industry Sector 2001




Source: Department of Revenue, "Quarterly Business Review Calendar Year 2001", Table 1.

# APPENDIX B

## DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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## DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

The following is a summary of certain provisions of the Lease, Trust Agreement, Assignment, Land Lease and Site Lease, including certain defined terms used within this Official Statement. Reference is directed to each of such documents for the complete text thereof. Copies of such documents are available from the Office of the State Treasurer.

### CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Appendix B and elsewhere in this Official Statement. Unless otherwise indicated the following definitions are applicable to agreements relating to the Certificates.

***"Act"*** means Chapter 365 of the Laws of Washington, 1989, codified as chapter 39.94 RCW, as supplemented and amended.

***"Additional Rent"*** means all reasonable costs, expenses, insurance premiums, Impositions and other payments, including Administrative Fees and Expenses, that are the obligations of the State Treasurer or the State Agency pursuant to the terms of the Lease.

***"Additional Site Lease"*** means any future site lease of the Site by the State Agency in connection with an Additional State Agency Financing Lease

***"Additional State Agency Financing Lease"*** means any future lease entered into by the State Agency for the purpose of financing additions, betterments and improvements to the Property as provided in the Lease.

***"Administrative Fees and Expenses"*** means all application, commitment, financing or similar fees charged, or administrative or other expenses incurred, with respect to the administration and maintenance of the Certificates and the Certificate Agreements.

***"Assignment"*** means the Assignment from WFOA to the Fiscal Agent dated as of the Dated Date, executed and delivered in connection with the Certificates.

***"Authorized Agency Representative"*** means the natural person (a) designated on the certificate of the State Agency in the Lease and (b) whose signature is on file with the Fiscal Agent and the Treasurer Representative.

***"Authorized Denomination"*** means $5,000 and any integral multiple thereof.

***"Base Rent Payment"*** means a rent payment to be made by the State Agency as set forth in the Lease.

***"Base Rent Payment Date"*** means each January 1 and July 1, as specified in the Trust Agreement, on which a Base Rent Payment evidenced and represented by the related Certificates is due.

***"Beneficial Owner"*** means any Person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including Persons holding Certificates through nominees, depositories or other intermediaries).

***"Business Day"*** means any day other than (i) a Saturday, (ii) a Sunday, (iii) a day on which banking institutions located in the state of Washington are authorized or required by law to remain closed, or (iv) a day on which the Principal Office of the Fiscal Agent or the New York Stock Exchange is closed.

***"Certificate Agreement"*** means, as the context requires, the Trust Agreement, the Site Lease, the Land Lease, the Lease, the Assignment or the Disclosure Agreement, and collectively means all such agreements in connection with the Certificates.

***"Certificate Counsel"*** means a firm of attorneys appointed by the State Treasurer of recognized national standing in the field of law relating to the issuance of certificates of participation, bonds and other obligations by states and their political subdivisions, and the exclusion of interest thereon from gross income for federal income tax purposes.

***"Certificate Fund "*** means the fund of that name established pursuant to the Trust Agreement.

***"Certificate of the State Treasurer***, ***Written Request of the State Treasurer*** and ***Written Order of the State Treasurer"*** each mean an instrument in writing signed by a Treasurer Representative.

***"Certificates"*** means the certificates of participation in the Base Rent Payments executed and delivered by the Fiscal Agent pursuant to the Trust Agreement.

***"Closing Date"*** means the date on which the applicable Certificates are delivered to the Underwriter therefor in exchange for payment.

***"Costs of Issuance"*** means administrative expenses, legal, accounting, financial and printing expenses, and all other expenses incurred in connection with the preparation, execution and delivery of the Certificate Agreements and the Certificates.

***"Dated Date"*** means December 1, 2002.

***"Disclosure Agreement"*** means an agreement for ongoing disclosure in compliance with the Rule, dated as of the Dated Date, executed and delivered by the Treasurer Representative with respect to the Certificates.

***"Event of Default"*** means an Event of Default as set forth in the Lease.

***"Executive Order***," for purposes of the Lease, means an order issued by the Governor of the State pursuant to RCW 43.88.050 and 43.88.110, as amended or re-enacted.

***"Fiscal Agent"*** means The Bank of New York, a banking corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, or any other bank or trust company which may at any time be substituted in its place pursuant to the applicable Trust Agreement.

***"Fitch"*** means Fitch IBCA, Inc., and its successors and assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody's and S&P) designated by the Treasurer Representative with the consent of the Fiscal Agent.

***"Government Obligations"*** means obligations described in paragraph (a) of the definition of Qualified Investments below.

***"Impositions"*** means all federal, state and local real and personal property taxes and assessments (including assessments for public improvements), license and permit fees, charges for public utilities, leasehold excise taxes, other excise taxes, levies, use and occupancy taxes, privilege taxes, business and occupation taxes and all other governmental impositions and charges of every kind and nature, general and special, ordinary and extraordinary, foreseen and unforeseen, which are imposed, levied upon or assessed against or which arise with respect to the applicable Property (or any portion thereof), any Base Rent Payments or Additional Rent or other sums payable under the Lease or the Site Lease, the leasehold estate created by the Site Lease or the Lease, or the operation, use or possession of the Property, and all income, gross receipts or similar taxes imposed, levied upon, assessed against or measured by any Base Rent Payments or Additional Rent or other sums payable under the Site Lease or the Lease, and all sales, value added, *ad valorem*, use and similar taxes levied, assessed or payable on account of the leasing, use, possession, control or operation of the Property, and all charges, fees and assessments for utilities, communications and similar services provided to the Property.

***"Information Services"*** means Financial Information, Inc.'s "Daily Bond Service"; Kenny Information Services' "Called Bond Service"; Moody's "Municipal and Government"; and Standard and Poor's "Called Bond Record"; or, in accordance with then-current guidelines of the SEC, such other addresses and/or such other services providing information with respect to called bonds, as the State Treasurer may designate in a Certificate of the State Treasurer delivered to the Fiscal Agent.

***"Initial Principal Amount"*** means the aggregate initial Principal Components evidenced and represented by the applicable Certificates as set forth in the Trust Agreement.

***"Interest Account"*** means the account by that name established pursuant to the Trust Agreement.

***"Interest Component"*** means that portion of each Base Rent Payment denominated as and comprising interest as set forth in the Lease.

***"Interest Payment Date"*** means each January 1 and July 1 on which an Interest Component is due as set forth in the Lease.

***"Land Lease"*** means the lease agreement between Eastern Washington University, as lessor, and the State Agency, as lessee, providing for the lease of the Site to the Lessee, as such agreement may be amended.

***"Lease"*** means the State Agency Financing Lease, dated as of the Dated Date, by and between WFOA and the State, acting by and through the State Agency and the State Treasurer, as supplemented and amended.

***"Lease Termination Date"*** has the meaning given such term in the Lease.

***"Letter of Representation"*** means the blanket issuer letter of representations from the State Treasurer to DTC.

***"LGIP"*** means the Local Government Investment Pool administered by the Office of the State Treasurer.

***"Moody's"*** means Moody's Investors Service, and its successors and assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch and S&P) designated by the Treasurer Representative with the consent of the Fiscal Agent.

***"MSRB"*** means the Municipal Securities Rulemaking Board or any successor to its functions.

***"NRMSIR"*** means a nationally recognized municipal securities information repository as designated by the SEC.

***"OFM"*** means the state Office of Financial Management established in the Office of the Governor of the state pursuant to RCW chapter 43.41, or any successor to the functions of the OFM, charged with responsibility of submitting budgets to the State Legislature.

***"Opinion of Counsel"*** means a written opinion of Certificate Counsel satisfactory to the State Treasurer and the Fiscal Agent.

***"Outstanding"*** means all Certificates executed and delivered pursuant to the Trust Agreement, except: (i) Certificates theretofore canceled by the Fiscal Agent, or delivered to the Fiscal Agent for cancellation; (ii) Certificates for which the payment or prepayment of the Base Rent Payments evidenced and represented thereby has been made or duly provided for pursuant to the Lease and the Trust Agreement; and (iii) Certificates in lieu of or in substitution for which other Certificates have been executed and delivered pursuant to the Trust Agreement.

***"Owner"*** means the registered owner of a Certificate as set forth on the Certificate Register.

***"Parties"*** means, as the context requires, the State, WFOA, the State Agency, and/or the Fiscal Agent.

***"Paying Agent"*** means any paying agent for the Certificates appointed pursuant to the Trust Agreement.

***"Permitted Encumbrances"*** means as of any particular time: (i) liens for general *ad valorem* taxes and assessments, if any, that are not then delinquent; (ii) the Site Lease, Lease, Land Lease, Assignment and Trust Agreement; (iii) any right or claim of any mechanic, laborer, materialmen, supplier or vendor filed or perfected in the manner provided by law; and (iv) easements, rights of way, mineral rights, drilling rights, and other rights, reservations, covenants, conditions or restrictions which (a) exist of record as of the Dated Date and which the State Agency certifies in writing will not materially impair the use of the Property by such State Agency, and (b) arise thereafter and to which the State Treasurer and WFOA consent in writing; and (v) any Additional Site Lease or Additional State Agency Financing Lease and any assignment thereof to the Fiscal Agent.

***"Person*** or ***person"*** means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

***"Prepayment Account"*** means the account by that name established pursuant to the Trust Agreement.

***"Prepayment Date"*** means each date, other than a Principal Payment Date, on which Principal Component evidenced and represented by the Certificates is to be prepaid.

***"Prepayment Price"*** means the price payable pursuant to the Lease upon any optional or mandatory prepayment of Principal Components evidenced and represented by the related Certificates.

***"Principal Account"*** means the account by that name established pursuant to the Trust Agreement.

***"Principal Component"*** means that portion of each Base Rent Payment denominated as and comprising principal as set forth in the Lease.

***"Principal Office"*** means, with respect to the State Treasurer, the office in Olympia, Washington, designated in writing by the State Treasurer to the Fiscal Agent, and, with respect to the Fiscal Agent, the corporate trust office of the Fiscal Agent located in New York, New York, designated in writing by the Fiscal Agent to the State Treasurer.

***"Principal Payment Date"*** means each July 1 on which a Principal Component is due as set forth in the Lease.

***"Project"*** means the improvements acquired or constructed on the Site, if any, pursuant to the Lease.

***"Project Costs"*** means all costs incurred by or on behalf of WFOA, the state or the State Agency, as agent of WFOA, on, prior to or after the effective date of the Lease in connection with the acquisition or construction of the Property or the Project, as applicable, and shall include, but not be limited to, (i) the cost of the Property or the Project (including, but not limited to, charges for design, testing and similar charges); (ii) the expenses of the State Treasurer and the State Agency in connection with the acquisition or construction of the Property or the Project, including but not limited to the Costs of Issuance, (iii) any taxes, assessments and other charges, if any, payable in connection with the acquisition or construction of the Property or the Project; and (iv) any amounts required to reimburse the State Treasurer or the State Agency for advances or payments made prior to the effective date of the Lease for any of the above costs.

***"Project Fund"*** means the fund of that name established by the State Treasurer pursuant to the Trust Agreement and Lease.

***"Property"*** means the Site and the Project leased by WFOA to the State Treasurer and the State Agency, pursuant to the Lease.

***Qualified Investments*** shall include the following:

(a) Any securities (including obligations held or issued in book-entry form on the books of the Department of the Treasury of the United States of America) which constitute direct obligations of, or the timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America;

(b) Federal Home Loan Bank Bonds and Discount Notes; Federal National Mortgage Association Bonds and Discount Notes; Federal Farm Credit Banks Consolidated System-Wide Bonds and Discount Notes; Federal Home Loan Mortgage Corporation Bonds and Discount Notes; Government National Mortgage Association Bonds; Student Loan Marketing Association Bonds and Discount Notes; Small Business Administration Bonds; Export-Import Bank Bonds; Maritime Administration Bonds; and Obligations of any other Government Sponsored Corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System;

(c) Bankers' acceptances, which are eligible for purchase by the Federal Reserve System, drawn on and accepted by a commercial bank (which may include the Fiscal Agent) having a combined capital and surplus of not less than $100,000,000, which bank has at the time of investment one of the two highest ratings of a Rating Agency;

(d) Commercial paper having original maturities of not more than 365 days which has at the time of investment one of the two highest ratings of a Rating Agency, which is issued by a corporation organized and operating in the United States with total assets in excess of $100,000,000;

(e) Bonds of the State and any local government in the State, which bonds have at the time of investment one of the three highest credit ratings of a Rating Agency;

(f) General obligation bonds of a state other than the State and general obligation bonds of a local government of a state other than the State, which bonds have at the time of investment one of the three highest credit ratings of a Rating Agency;

(g) Any investments authorized by law for the State Treasurer or any local government of the State;

(h) Shares of money market funds with portfolios consisting of only U.S. Treasury and agency securities or repurchase agreements, which have at the time of investment one of the three highest ratings of a Rating Agency;

(i) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Fiscal Agent) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in clauses (a) or (b) above;

(j) The LGIP; and

(k) Any other legal investment for funds held by the State Treasurer.

***Rating Agency*** means the generic rating categories of the Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

***Securities Depositories*** means: The Depository Trust Company, or, in accordance with then-current guidelines of the SEC, such other securities depositories as the State Treasurer may designate in a Certificate of the State Treasurer delivered to the Fiscal Agent.

***Site*** means the real property legally described in the Site Lease, including the improvements thereon.

***Site Lease*** means the State Agency Site Lease, dated as of the Dated Date, by and between the State Agency and WFOA for the lease of the Site by the State Agency to WFOA.

***State*** means the State of Washington.

***State Agency*** means the Office of the Scretary of State, Archives and Records Management Division, or any successor to its functions.

***State Finance Committee*** means the state finance committee as constituted from time to time pursuant to RCW Ch. 43.33.

***State Legislature*** means the Legislature of the State of Washington.

***State Treasurer*** means the Treasurer of the State of Washington.

***Supplemental Agreement*** means any agreement duly authorized and entered into following the Closing Date between or among the State Treasurer, the State Agency, WFOA, and the Fiscal Agent supplementing, modifying or amending the Trust Agreement, Site Lease, Lease or Assignment.

***Tax Certificate*** means the Tax Certificate and Agreement executed and delivered by the Treasurer Representative and/or Authorized Agency Representatives regarding compliance with applicable provisions of the Code in connection with the Certificate Agreement.

***"Toxic or Hazardous Substances"*** shall be interpreted broadly to include, but not be limited to, any material or substance that is defined or classified under federal, state or local laws as: (i) a "hazardous substance" pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601(14) or Section 311 of the Federal Water Pollution Control Act, 33 U.S.C. § 1321, each as now or thereafter amended; (ii) a "hazardous waste" pursuant to Section 1004 or Section 3001 of the Resource Conservation and Recovery Act, 42 U.S.C. § 6903, 42 U.S.C. § 6921, as now or thereafter amended; (iii) a toxic pollutant under Section 307(1)(a) of the Federal Water Pollution Control Act, 33 U.S.C. § 1317(1)(a); (iv) a "hazardous air pollutant" under Section 112 of the Clean Air Act, 42 U.S.C. § 7412, as now or thereafter amended; (v) a "hazardous material" under the Hazardous Material Transportation Act, 49 U.S.C. § 1802(2), as now or thereafter amended; (vi) toxic or hazardous pursuant to regulations promulgated now or thereafter under the aforementioned laws; or (vii) presenting a risk to human health or the environment under other applicable federal, state or local laws, ordinances, or regulations, as now or as may be posed or promulgated in the future. "Toxic or Hazardous Substances" shall also mean any substance that after release into the environment and upon exposure, ingestion, inhalation or assimilation, either directly from the environment or indirectly by ingestion through food chains, will or may reasonably be anticipated to cause death, disease, behavior abnormalities, cancer or genetic abnormalities. "Toxic or Hazardous Substances" specifically includes, but is not limited to, asbestos, polychlorinated biphenyls (PCBs), petroleum and petroleum-based derivatives, flammable explosives, radioactive materials and urea formaldehyde.

***Treasurer Representative*** means the State Treasurer, the Assistant State Treasurer or the Deputy State Treasurer of the State, and shall include any other natural person who at the time and from time to time may be designated by a Certificate of the State Treasurer delivered to the Party relying thereon. Such Certificate shall contain the specimen signature of such person, and shall be signed on behalf of the State by the State Treasurer, the Assistant State Treasurer or the Deputy State Treasurer.

***Underwriter*** means the original purchaser of a series of the Certificates.

***WFOA*** means the Washington Finance Officers Association, a Washington nonprofit corporation, and any successors and permitted assigns thereof, including without limitation the Fiscal Agent as assignee pursuant to the Assignment.

**THE LEASE**

**Sublease of Property**

*Financing Lease*. The Lease constitutes a "financing lease," and a "financing contract," each within the meaning of the Act.

*Sublease of Property*. The State Agency and WFOA ratify and confirm the Lease and the Site Lease in all respects. WFOA subleases to the State for the benefit of the State, and the State hires from WFOA, upon the terms and conditions set forth in the Lease, the real property and all improvements thereon, including but not limited to the Project, described in the Lease (collectively, the "Property"), subject to all easements, covenants, conditions and restrictions existing as of the date thereof. The State Treasurer agrees to pay, for the benefit of the State Agency, in consideration thereof the Base Rent Payments and Additional Rent therefor in accordance with Section 3.1 of the Lease, and all other amounts required to be paid by the State Agency thereunder.

*Right of Entry*. Under the Lease, WFOA reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time (or in an emergency at any time) to inspect the same, or to make any repairs, improvements or changes necessary for the preservation thereof, or otherwise in connection with WFOA's rights and obligations thereunder.

*Quiet Enjoyment*. The State and its authorized assignees and sublessees at all times during the term of the Lease, subject to the provisions of Article VIII thereof, shall peaceably and quietly have, hold and enjoy all of the Property leased thereunder without suit, trouble or hindrance from WFOA.

**Appointment of Agents; Acquisition and Construction of Project; Substitution and Release of Property**

*Appointment of Agents*. WFOA appoints the State Treasurer and the State Agency, respectively, as its agents in connection with the disbursement of the proceeds of the Certificates and the design, acquisition and/or construction and financing or refinancing of the Project, and the State Treasurer and the State Agency each accept and agree to such designation and appointment.

*Acquisition and Construction of Project*. The State Treasurer and the State Agency, respectively, as agents of WFOA, agree that they have caused or will cause the Project to be designed, acquired and/or constructed and financed or refinanced with all reasonable dispatch, in accordance with the plans, specifications, bidding documents, and construction and other contracts theretofore or thereafter approved by the State Agency, and in accordance with applicable laws and regulations. This appointment of the State Treasurer and the State Agency to act as the respective agent of WFOA in connection with the disbursement of the proceeds of the Certificates and the design, acquisition and/or construction and financing or refinancing of the Project, respectively, and all authority conferred thereby is made and conferred irrevocably by WFOA, and shall not be terminated by any act of the State, the State Agency, WFOA or otherwise.

The State Agency shall negotiate or call for bids for the design, acquisition and/or construction of the Property and/or the Project in accordance with the requirements and limitations, if any, imposed by State law. It is intended by the Parties thereto that WFOA shall not have any responsibility, liability or obligation with respect thereto.

*Changes to Project; Additions to Property*. The State Agency may revise the Project or the description thereof; *provided*, that (i) the Project as so revised shall satisfy the requirements under the Lease with respect to the substitution of Property previously acquired, constructed, financed or refinanced; (ii) the Project Costs shall not be materially reduced thereby; and (iii) any such revision shall not relieve the State Treasurer or the State Agency of their obligation to design, acquire, construct, finance or refinance the Project in accordance therewith.

The State Agency shall have the right during the term of the Lease, at its own cost and expense, to make or permit additions, betterments and improvements to the Property, and to attach fixtures, structures and signs thereto; *provided*, that such additions, betterments and improvements and fixtures, structures and signs (i) shall be constructed and installed in accordance with applicable laws and regulations, and not in violation of any easements, restrictions, conditions or covenants affecting title to the Property; and

(ii) shall not diminish the value, capacity or usefulness of the Property. The State Agency also is permitted, without the consent of the Owners, to enter into Additional State Agency Financing Leases with WFOA to finance all or any portion of the cost of such additions, betterments and improvements to the Property so long as such leases do not reduce the obligation of the State to perform its obligations under the Lease, including without limitation its obligation to make Base Rent Payments, and will not, in the Opinion of Counsel, adversely affect the tax-exempt status of the Interest Component of Base Rent Payments evidenced and represented by the Certificates. If the State Agency enters into any Additional State Agency Financing Lease for this purpose, WFOA may be granted an interest in the Property, which leasehold interest may be assigned to the Fiscal Agent for the benefit of owners of certificates of participation in such Additional State Agency Financing Lease. The occurrence of an Event of Default or Permitted Termination Event with respect to the Lease shall constitute a like event under any Additional State Agency Financing Lease, and the occurrence of any such like event under any Additional State Agency Financing Lease shall constitute an Event of Default or Permitted Termination Event, as the case may be, under this Lease. The owners of certificates of participation in any Additional State Agency Financing Lease shall be secured pari passu with the Owners with respect to any amounts received by the Fiscal Agent with respect to the Property following the occurrence of an Event of Default or Permitted Termination Event.

*Substitution of Property*. After acquisition, construction, financing or refinancing of the Project, the State Agency, with the prior written consent from the State Treasurer, may substitute the Property, for another parcel or parcels of real property by first filing with the Fiscal Agent, as assignee of WFOA, (i) an Opinion of Counsel to the effect that such substitution (A) is permitted under the Lease, and (B) in and of itself, will not adversely effect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates; (ii) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the Fiscal Agent to the effect that such substitute Property has an estimated fair rental value for the remaining term of the Lease equal to or greater than the Base Rent Payments due thereunder from time to time thereafter; (iii) a certificate of the State Agency to the effect that such substitute Property (A) is free and clear of any mortgages, deeds of trust, liens or other similar encumbrances, other than Permitted Encumbrances, and (B) is essential to the State Agency's ability to carry out its governmental functions and responsibilities; and (iv) written evidence from each Rating Agency then rating the Certificates that such substitution, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency. The State Treasurer, the Fiscal Agent, as assignee of WFOA, and the State Agency shall execute, deliver and record such amendments and modifications to the Site Lease, the Lease, and the Assignment, and such other documents, agreements and instruments, as the State Treasurer or the Fiscal Agent shall deem necessary or desirable in connection with such substitution.

*Release of Property*. After acquisition, construction, financing or refinancing of the Project, the State Agency, with the prior written consent from the State Treasurer, may release and consent to the release of a portion of the Property leased under the Site Lease, and subleased under and pursuant to the Lease, by first filing with the Fiscal Agent, as assignee of WFOA, (i) an Opinion of Counsel to the effect that such release (A) is permitted under the Lease, and (B) in and of itself, will not adversely effect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates; (ii) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the State Treasurer and the Fiscal Agent to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the Lease equal to or greater than the Base Rent Payments due from time to time thereunder; (iii) provision by the State Agency of any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities (including but not limited to water, sewer, electrical, gas, telephone and other utilities) as existed prior to such release; and (iv) written evidence from each Rating Agency then rating the Certificates that such release, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency. The State Treasurer, the Fiscal Agent, as assignee of WFOA, and the State Agency shall execute, deliver and record such amendments and modifications to the Site Lease, the Lease and the Assignment, and such other documents, agreements and instruments, as the State Treasurer or the Fiscal Agent shall deem necessary or desirable in connection with such release.

*Project Fund.* In consideration of the mutual covenants and agreements of the Parties hereto set forth herein, WFOA and the State Treasurer shall enter into a Trust Agreement concurrently with the execution and delivery of the Lease under which WFOA authorizes and directs the State Treasurer to establish the Project Fund and to make disbursements therefrom in accordance with the provisions thereof and to pay the Project Costs on behalf of WFOA. Proceeds of the sale of the Certificates shall be deposited in the Project Fund. Moneys on deposit in the Project Fund shall be invested by the State Treasurer as provided in the Trust Agreement. Disbursements from the Project Fund shall be made as provided in the Trust Agreement.

Subject to Article VI of the Lease, if moneys in the Project Fund are not sufficient to pay the Project Costs in full, the Project Costs in excess of the amount in the Project Fund will be paid from other moneys provided by the State Agency. WFOA makes no representation or warranty, either express or implied, that the moneys which will be deposited into the Project Fund will be sufficient to pay the Project Costs. If the State Treasurer or the State Agency shall pay or cause the payment of any Project Costs in excess of the amount in the Project Fund available for such purpose, the State shall not be entitled to any reimbursement from WFOA for such payments, nor shall the State be entitled to any diminution, reduction, abatement, postponement, counterclaim, defense or set-off of the Base Rent Payments, Additional Rent or other amounts otherwise required to be paid hereunder.

The Fiscal Agent, as assignee of WFOA, shall have no responsibility, liability or obligation under the Lease or otherwise with respect to the acquisition or construction of the Project or payment of the Project Costs thereof.

*Title to the Property*. Title to the State Agency's leasehold interest in the Property under the Land Lease, subject to Permitted Encumbrances, and all additions, modifications, repairs and improvements thereto, is required to be and remain and vest in the State Agency, subject to the leasehold estates under the Site Lease and the Lease, without any further action by the State or WFOA.

*Disclaimer of Warranties*. The State acknowledges and agrees that it has had adequate opportunity to inspect the Property, and that such Property, including but not limited to the structures and improvements thereon, is acceptable to the State in its present condition. The State subleases the Property in its present condition, "as is." WFOA MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUMES NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, STRUCTURAL OR OTHER CONDITION, USE, USABILITY, SUITABILITY, OCCUPANCY OR MANAGEMENT OF THE PROPERTY, AS TO THE INCOME FROM OR EXPENSE OF THE USE OR OPERATION THEREOF, AS TO TITLE TO THE PROPERTY, AS TO COMPLIANCE WITH APPLICABLE ZONING, SUBDIVISION, PLANNING, SAFETY, FIRE, HEALTH OR ENVIRONMENTAL LAWS, REGULATIONS, ORDINANCES, CODES OR REQUIREMENTS, OR AS TO COMPLIANCE WITH APPLICABLE COVENANTS, CONDITIONS OR RESTRICTIONS, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY.

**Rent Payments**

The State Treasurer, on behalf of the State Agency, thereby promises to pay to WFOA, as rental for the use and occupancy of the Property, the following amounts at the following times:

*Base Rent Payments.* On each Base Rent Payment Date, the Base Rent Payment set forth in the Lease, consisting of a Principal Component and/or an Interest Component as set forth in the Lease; and

*Additional Rent*. All Additional Rent incurred by WFOA in connection with the lease of the Site from the State Agency, the sublease of the Property to the State Agency, the execution and delivery of the Certificates, and the observance and performance of the Certificate Agreements, within thirty (30) days following receipt of an invoice from WFOA with respect thereto which includes (i) a brief description of each item of such Additional Rent, (ii) the party to whom payment is due, (iii) the amount thereof, and (iv) such additional information as the State Agency or the State Treasurer may reasonably request.

Such payments of Base Rent Payments and Additional Rent for each rental payment period during the term of the Lease shall constitute the total rental due for such period, and shall be paid for and in consideration of the use and occupancy and continued quiet enjoyment of the Property for such period. The Parties thereto have determined and agreed that such total rental does not exceed the fair rental value of the Property for each such rental period, given the purposes, terms and provisions of the Lease. Anything therein to the contrary notwithstanding, the State waives any right that it may have under the laws of the State to a rebate or repayment of any portion of such rental in the event that there is substantial interference with the use or right to possession by the State of the Property or any portion thereof as a result of material damage, destruction or condemnation.

Each Base Rent Payment shall consist of a Principal Component and/or an Interest Component as set forth in the Lease. Interest shall accrue and be calculated as provided in the Trust Agreement. Each Base Rent Payment payable thereunder shall be paid by electronic funds transfer in lawful money of the United States of America. Payments of Additional Rent shall be made to or upon the order of WFOA. Each Base Rent Payment shall be applied first to the Interest Component due thereunder, and then to the Principal Component due thereunder.

WFOA directs the State Treasurer, and the State Treasurer agrees, to make all Base Rent Payments directly to the Fiscal Agent, as assignee of WFOA.

**Source of Base Rent Payments**

The obligation of the State Treasurer to make Base Rent Payments shall be subject to appropriation by the State Legislature and to Executive Order reduction. The State Treasurer shall not be obligated to make Base Rent Payments other than from appropriated funds of the State Agency.

**Net Lease**

The Lease shall be deemed and construed to be a "triple net lease," and the State shall pay absolutely net during the term of the Lease the Base Rent Payments, Additional Rent and all other amounts due thereunder, without notice or demand, and free of any charges, assessments, Impositions or deductions whatsoever, and without any diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, WFOA, the Fiscal Agent, any State Agency, and/or any other Person, or for any other reason; *provided*, that nothing in the Lease shall be construed to release or excuse WFOA from the observance or performance of its obligations thereunder. If WFOA shall fail to observe or perform any such obligation, the State may institute such legal action and pursue such other remedies against WFOA as the State deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

**Limited Obligation**

THE LEASE SHALL CONSTITUTE A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. THE LEASE SHALL NOT CONSTITUTE A DEBT OR A GENERAL OBLIGATION OF THE STATE OR OF THE STATE AGENCY, THE

CONTRACTING OF AN INDEBTEDNESS BY THE STATE OR THE STATE AGENCY, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR THE STATE AGENCY, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE OBLIGATION OF THE STATE TO MAKE BASE RENT PAYMENTS IS SUBJECT TO APPROPRIATION AND TO EMERGENCY REDUCTION IN FUNDING UNDER CERTAIN CIRCUMSTANCES, ALL AS SET FORTH IN THE LEASE. NOTHING IN THE LEASE SHOULD BE CONSIDERED AS OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE OR THE STATE AGENCY TO MAKE THE BASE RENT PAYMENTS DUE THEREUNDER.

**Optional Prepayment**

The State may, at its option, prepay all or any portion of the Principal Components then unpaid, in whole or in part on any date as described in the Official Statement under the caption "The Certificates".

The State may also, at its option, provide for the payment of all or any portion of the Base Rent Payments then unpaid, in whole or in part on any date, by causing to be deposited with the Fiscal Agent, as assignee of WFOA, (i) moneys and/or Government Obligations in accordance with the Trust Agreement; and (ii) an Opinion of Counsel to the effect such actions are permitted thereunder and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

**Mandatory Prepayment; Special Prepayment**

*Eminent Domain; Loss of Title*. The State shall prepay or cause to be prepaid, from eminent domain awards or sale proceeds received pursuant to the Lease and from the net proceeds of title insurance, if any, pursuant thereof, the Principal Components of Base Rent Payments then unpaid, in whole or in part (and if in part, within Principal Payment Dates and from Principal Components that will result in approximately equal aggregate annual Base Rent Payments from the related Prepayment Date) on any date, in Authorized Denominations, at a Prepayment Price equal to the sum of the Principal Components so prepaid, without premium, plus accrued interest evidenced and represented thereby to the Prepayment Date.

*Insurance Proceeds*. The State shall prepay or cause to be prepaid from net insurance proceeds received pursuant to the Lease, the Principal Components of Base Rent Payments then unpaid, in whole or in part (and if in part, within Principal Payment Dates and from Principal Components that will result in approximately equal aggregate annual Base Rent Payments from the related Prepayment Date), on any date, in Authorized Denominations, at a Prepayment Price equal to the sum of the Principal Components so prepaid, without premium, plus accrued interest evidenced and represented thereby to the Prepayment Date.

To the extent such award, sale proceeds or net proceeds are not sufficient, in whole or in part, to prepay or cause the prepayment of Principal Components of Base Rent Payments in Authorized Denominations, such amounts shall be deposited by the State Treasurer with the Trustee to provide for Base Rent Payment next due as provided in the Trust Agreement.

**Notice to Fiscal Agent**

The State Treasurer shall provide the Fiscal Agent, as assignee of WFOA, with not less than 45 days' prior written notice of its intention (i) to prepay any Principal Components, which notice shall specify the reason for such prepayment, the Prepayment Date, and the amount and the Principal Payment Dates of the Principal Components to be prepaid; or (ii) to provide for the payment of any Base Rent Payments pursuant to the Lease.

**Revision of Base Rent Payments upon Prepayment**

The Principal Components and Interest Components due on each Base Rent Payment Date after a Prepayment Date pursuant to the Lease, shall be reduced by the Fiscal Agent, as assignee of WFOA, to reflect such prepayment; *provided*, that the aggregate reduction in such Principal Components shall be equal to the aggregate Principal Components prepaid by the State Treasurer.

**Discharge of Lease**

All right, title and interest of WFOA under the Lease and all obligations of the State under the Lease shall cease, terminate, become void and be completely discharged and satisfied (except for the right of the Fiscal Agent, as assignee of WFOA, and the obligation of the State to have the moneys and Government Obligations so set aside applied to make the remaining Base Rent Payments) when either:

(a) all Base Rent Payments and all Additional Rent and other amounts due thereunder have been paid in accordance therewith; or

(b) (i) the State Treasurer shall have delivered a written notice to WFOA and the Fiscal Agent of its intention to prepay all of the Base Rent Payments remaining unpaid; (ii) the State Treasurer shall cause to be deposited with the Fiscal Agent, as assignee of WFOA, (A) moneys and/or Government Obligations in accordance with the Trust Agreement; and (B) an Opinion of Counsel to the effect that such actions are permitted under the Lease and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and (iii) for so long as any Base Rent Payments remain unpaid, provision shall have been made satisfactory the Fiscal Agent for payment of all Additional Rent, including but not limited to the fees and expenses of the Fiscal Agent.

**Eminent Domain**

If all of the Property subleased to the State and the State Agency pursuant thereto, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the State Agency at the time of such taking, shall be taken under the power of eminent domain (or sold under threat of condemnation), the sublease of such Property pursuant to the Lease shall cease as of the day that the State and the State Agency are required to vacate such Property. If less than all of the Property is taken under the power of eminent domain (or sold under threat of condemnation), and the remainder is suitable for the purposes for which it was used by the State Agency at the time of such taking, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Lease shall continue in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due thereunder. So long as any Base Rent Payments remain unpaid, any eminent domain award and any proceeds of sale under threat of condemnation for all or any part of the Property shall be applied to the prepayment of Base Rent Payments as provided in the Lease. Any award or proceeds in excess of the amount necessary to prepay such Base Rent Payments due under the Lease, shall be paid to WFOA and the State Agency as their respective interests may appear.

**Loss of Title**

If there is a loss of title to the Property which is insured under a policy or policies of title insurance, if any, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the State and State Agency at the time of such loss, the sublease of such Property pursuant to the Lease shall cease as of the day that the State and the State Agency are required to vacate such Property. If there is a loss of title to less than all of such Property, and the remainder is suitable for the purposes for which it was used by the State Agency at the time of such loss, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Lease shall continue in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due pursuant to the Lease. So long as any Base Rent Payments under the Lease remain unpaid, any payments under such title insurance policy or policies, if any, with respect to such Property shall be applied to the prepayment of Base Rent Payments as provided in the Lease. Any payment in excess of the amount necessary to prepay such Base Rent Payments, shall be paid to WFOA, the State and the State Agency as their respective interests may appear.

**Damage or Destruction**

If all or any portion of the Property subleased to the State and the State Agency pursuant thereto shall be damaged or destroyed by fire or other casualty, the sublease thereof pursuant to the Lease shall not terminate, nor shall there be any abatement of the rent payable thereunder. So long as any Base Rent Payments remain unpaid, any payments under the property insurance policy or policies with respect to such Property may be applied to the prepayment of Base Rent Payments as provided therein, or may be paid to the State Treasurer and applied as provided in the Trust Agreement.

**Permitted Termination Event**

As described in the forepart of this Official Statement, the Lease is subject to termination under certain circumstances.

**Covenants and Agreements of the State**

*Budget.* The State Agency shall (i) include in its biennial budget any scheduled Base Rent Payments that may be required to be made by the State Agency and the State Treasurer during such Biennium under the Lease; (ii) submit such budget to OFM at such times and in such manner as required by law; (iii) use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make any such payments; (iv) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (v) use its best efforts to obtain allotments by OFM of generally appropriated funds sufficient to make all such payments.

*Application of Lawfully Available Amounts* . To the extent permitted by law, the State Agency agrees that, to the extent that any amounts are included in its budget for purposes or facilities served, or functions or operations supported or provided by the Property, the State Agency will allocate a sufficient portion of such amounts to the payment of the Base Rent Payments and Additional Rent due under the Lease.

*Tax-Exemption*. Neither the State nor the State Agency shall make any use of the proceeds of the Lease or the Certificates or of any other amounts, regardless of the source, or of any property, nor shall they take or refrain from taking any action, that would cause the Lease or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. Neither the State nor the State Agency shall use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Base Rent Payments under Section 103 of the Code. Neither the State nor the State Agency shall make any use of the proceeds of the Lease or the Certificates or of any other amounts, nor shall they take or refrain from taking any action, that would cause the Lease or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code, or "private activity bonds" within the meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Base Rent Payments remain unpaid, the State and the State Agency, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated thereunder. The State and the State Agency will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Base Rent Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The State and the State Agency shall comply with the provisions of the Tax Certificate.

The State Treasurer shall establish and maintain a separate rebate fund (the "Rebate Fund"). The State shall deposit in the Rebate Fund the Rebate Requirement as provided in the Tax Certificate. Subject to the other provisions of the Lease relating to the tax-exempt status of interest with respect to the Certificates, moneys held in the Rebate Fund are pledged to secure the rebate payments to the United States, and the State, the State Agency, WFOA, the Fiscal Agent and the Owners shall have no rights in or claim to such moneys.

Without limiting the generality of the foregoing, the State agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code. This covenant shall survive the discharge of the Lease and the payment in full or defeasance of the Certificates. The State specifically covenants to pay or cause to be paid to the United States at the times and in the amounts determined under the Lease, the Rebate Requirement as provided by the Tax Certificate.

Notwithstanding any provision of the Lease, if the State or the State Agency shall provide to the Fiscal Agent an Opinion of Counsel to the effect that any specified action required under this subsection is no longer required or that some further or different action is required to maintain the tax-exempt status of interest evidenced and represented by the Certificates, the Fiscal Agent may conclusively rely on such opinion, and the related covenants of the State or State Agency under the Lease shall be deemed to be modified to that extent.

*Duties Imposed by Law.* To the extent permitted by law, the covenants, agreements and other obligations on the part of the State and the State Agency contained therein shall be deemed and construed to be ministerial and non-discretionary duties imposed by law, and it shall be the duty of the State, the State Agency and each and every public official thereof to take such actions in the performance of the official duties of such officials to enable the State and the State Agency to observe and perform the covenants, agreements, terms, conditions and other obligations contained therein and in the other Certificate Agreements to which the State or the State Agency is a party to be observed and performed by the State or the State Agency.

*Liens; Assignments and Subleases.* Neither the State nor the State Agency shall create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property or any part thereof, except for Permitted Encumbrances. The State Agency shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. Neither the State nor the State Agency shall grant, sell, assign, pledge, transfer, convey, mortgage, sublet or otherwise dispose any of its right, title or interest in, to or under the Lease or the Property except as otherwise provided in the Lease, and any such attempted grant, sale, assignment, pledge, transfer, conveyance, mortgage, sublease or disposal shall be void.

*Performance*. The State Agency shall punctually pay the Base Rent Payments and Additional Rent in strict conformity with the terms and provisions of the Lease, and the State and the State Agency will faithfully observe and perform all the covenants, agreements, terms, conditions and other obligations which are therein contained required to be observed and performed by the State or the State Agency. Except for a Permitted Termination Event, neither the State nor the State Agency will suffer or permit any default to occur under the Lease, or do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission or refraining from doing anything, would or might be ground for cancellation or termination of the Lease.

*Maintenance; Repairs*. For so long as the State Agency is in possession of the Property, the State Agency shall be fully responsible for the maintenance and repair, both ordinary and extraordinary, thereof. The State Agency will (i) keep and maintain or cause to be kept and maintained the Property in good repair and condition, protect the same from deterioration other than normal wear and tear, and pay or cause to be paid all charges for utility services to the Property; (ii) comply or cause compliance with the requirements of applicable laws, ordinances and regulations and the requirements of any insurance or self-insurance program required thereunder in connection with the use, occupation and maintenance of the Property; (iii) obtain or cause to be obtained all permits and licenses, if any, required by law for the use, occupation and maintenance of the Property; and (iv) pay or cause to be paid all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Property. WFOA acknowledges that the State Agency will contract with Edmonds Community College for various operation and maintenance responsibilities for the Property.

*Hazardous Substances.*

(a) *Use*. None of the State Agency, the State or their officers, agents, employees, contractors, or invitees, shall use the Property in a manner that violates any applicable federal, state or local law, regulation or ordinance, including, but not limited to, any such law, regulation or ordinance pertaining to air and water quality, the handling, transportation, storage, treatment, usage and disposal of Toxic or Hazardous Substances, air emissions, other environmental matters, and all zoning and other land use matters. Neither the State nor the State Agency shall cause or permit the release or disposal of any Toxic or Hazardous Substances on or from the Property.

(b) *Indemnity*. The State Agency, to the extent permitted by law, agrees to protect, indemnify, defend and hold WFOA and the Fiscal Agent, and their respective directors, officers, employees and agents harmless from any claims, judgments, damages, penalties, fines, expenses, liabilities or losses arising out of or in any way relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property; *provided, however*, that the State Agency shall not be obligated to indemnify itself, in its capacity as Lessor under the Site Lease, from any such claims, judgments, damages, penalties, fines, expenses, liabilities or losses relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property occurring when the State is or was not in possession of the Property. Such indemnity shall include, without limitation, costs incurred in connection with:

(i) Toxic or Hazardous Substances present or suspected to be present in the soil, groundwater or soil vapor on or under the Property; or

(ii) Toxic or Hazardous Substances that migrate, flow, percolate, diffuse, or in any way move onto or under the Property; or

(iii) Toxic or Hazardous Substances present on or under the Property as a result of any discharge, dumping, spilling (accidental or otherwise) onto the Property by any person, corporation, partnership, or entity other than the State, the State Agency or their officials, officers, employees or agents.

The indemnification provided by this subsection shall also specifically cover, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision or other third party because of the presence or suspected presence of Toxic or Hazardous Substances in the soil, groundwater, or soil vapor on or under the Property. Such costs may include, but not be limited to, damages for the loss or restriction on use of rentable or usable space or of any amenity of the Property, sums paid in settlements of claims, attorneys fees, consultants fees, and expert fees.

(c) *Notification Requirements*. The State Agency shall promptly notify the other Parties in writing of all spills or releases of any Toxic or Hazardous Substances, all failures to comply with any federal, state, or local law, regulation or ordinance, all inspections of the Property by any regulatory entity concerning the same, all notices, orders, fines or communications of any kind by or from any governmental entity or third party that relate to the existence of or potential for environmental pollution of any kind existing on or resulting from the use of the Property or any activity conducted thereon, and all responses or interim cleanup action taken by or proposed to be taken by any government entity or private party on the Property.

Upon request by any Party, the State Agency shall provide such Party with a written report (A) listing the Toxic or Hazardous Substances that were used or stored on the Property; (B) discussing all releases of Toxic or Hazardous Substances that occurred or were discovered on the Property and all compliance activities related to Toxic or Hazardous Substances, including all contacts with and all requests from third parties for cleanup or compliance; (C) providing copies of all permits, manifests, business plans, consent agreements or other contracts relating to Toxic or Hazardous Substances executed or requested during that time period; and (D) including such other information requested by such Party.

(d) *Inspection Rights*. The Parties and their officers, employees and agents shall have the right, but not the duty, to inspect the Property and the State Agency's relevant environmental and land use documents at any time and to perform such tests on the Property as are reasonably necessary to determine whether the State Agency is complying with the terms of the Lease. The State Agency shall be responsible for paying for any testing that is conducted if the State Agency is not in compliance with the Lease and such Party has reason to believe such noncompliance is due to the State Agency's operations or use of the Property. If the State Agency is not in compliance with the Lease, such Party, without waiving or releasing any right or remedy it may have with respect to such noncompliance, shall have the right to immediately enter upon the Property to remedy any contamination caused by the State Agency's failure to comply, notwithstanding any other provision of the Lease. The Party shall use reasonable efforts to minimize interference with the State Agency's business but shall not be liable for any interference caused thereby.

(e) *Corrective Action*. In the event any investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work ("Remedial Work") of any kind is necessary under any applicable federal, state or local laws, regulations or ordinances, or is required by any governmental entity or other third person because of or in connection with the presence or suspected presence of Toxic or Hazardous Substances on or under the Property, the State Agency shall assume responsibility for all such Remedial Work and shall promptly commence and thereafter diligently prosecute to completion all such Remedial Work. The State Agency shall pay for all costs and expenses of such Remedial Work, including, without limitation, the Party's reasonable attorneys' fees and costs incurred in connection with monitoring or review of such Remedial Work. In the event the State Agency shall fail to timely commence, or cause to be commenced, or fail to diligently prosecute to completion, such Remedial Work, such Party may, but shall not be required to, cause such Remedial Work to be performed and all costs and expenses thereof, or incurred in connection therewith, shall become immediately due and payable as Additional Rent due to WFOA from the State Agency.

(f) *Insurance.*

(i) The State Agency shall maintain, or cause to be maintained, in full force and effect, comprehensive general liability insurance with respect to the Property in such amounts as may be reasonably determined by the State Agency from time to time but in any event not less than $1,000,000 per occurrence. Such insurance may be carried under a blanket policy with umbrella coverage. Such insurance shall cover any and all liability of the State Agency and its officials, officers, employees and volunteers. Such insurance shall include (A) coverage for any accident resulting in personal injury to or death of any person and consequential damages arising therefrom; and (B) comprehensive property damage insurance.

(ii) The State Agency shall maintain or cause to be maintained in full force and effect fire and extended coverage insurance with respect to the Property in such amounts as the State Agency may reasonably determine from time to time, but in any event not less than the aggregate amount of the Principal Components which remain unpaid. Such insurance may be carried under a policy or policies covering other property of the State Agency or the State. Such property insurance shall be "all risk" insurance, and shall cover physical loss or damage as a result of fire, lightning, theft, vandalism, malicious mischief, flood, earthquake, and boiler and machinery; provided, that the State Agency shall not be required to maintain earthquake or flood insurance if it determines, based on consultation with risk management or insurance advisors of the State, that the same is not available from reputable insurers at commercially reasonable rates. Such extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as the State Agency may reasonably determine from time to time. Such policies of insurance shall provide that all proceeds thereunder shall be payable to the Fiscal Agent, as assignee of WFOA, pursuant to a lender's loss payable endorsement. The net proceeds of such insurance shall be applied as provided herein. Such insurance may at any time include deductibles not to exceed amounts permitted by the State Office of Risk Management for losses in any year (currently the greater of $100,000 or one percent of the value of the damaged property).

(iii) The insurance required under paragraph (ii) above (A) shall be provided by a financially responsible insurance company authorized to do business in the State; (B) shall name WFOA, and the Fiscal Agent, as assignee of WFOA, as loss-payees thereunder; (C) shall provide that the same may not be canceled or given notice of non-renewal, nor shall the terms or conditions thereof be altered, amended or modified, without at least 45 days' prior written notice being given by the insurer to the State Treasurer and the Fiscal Agent, as assignee of WFOA; and (D) may be provided in whole or in part through a funded program of self-insurance reviewed at least annually by an insurance consultant, which may include risk management personnel of the State Agency.

(iv) The State Agency will pay or cause to be paid when due the premiums for all insurance policies required thereunder.

*WFOA Not Liable*. WFOA and its directors, officers and employees shall not be liable to the State, the State Agency or to any other Person whomsoever for any death, injury or damage that may result to any Person or property by or from any cause whatsoever in, on, about or relating to the Property.

*Accounting Records and Report*. The State Treasurer will keep or cause to be kept proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the Base Rent Payments, and such accounting records shall be available for inspection by the Fiscal Agent, as assignee of WFOA, or its agent duly authorized in writing at reasonable hours and under reasonable conditions.

*Further Assurances*. The State will preserve and protect the rights of WFOA and the Fiscal Agent, as assignee of WFOA, and will warrant and defend such rights against all claims and demands of all Persons. The State Treasurer will promptly execute, make, deliver, file and record any and all further assurances, instruments and agreements, and do or cause to be done such other and further things, as may be necessary or proper to carry out the intention or to facilitate the performance thereof and for the better assuring and confirming to WFOA the rights and benefits provided to it under the Lease.

*Disclosure Agreement.* Concurrently with the execution and delivery thereof, the State Treasurer will execute and deliver the Disclosure Agreement in order to assist the Underwriter in complying with the requirements under the Rule. The State Treasurer shall comply with the requirements of the Disclosure Agreement; *provided*, that failure to so comply shall not constitute a default under the Lease.

*Land Lease.* The State Agency is required to enforce, maintain and comply with the terms of the Land Lease (including timely payment of rent hereunder) during the term of the Site Lease and the Lease. The State Agency is prohibited from amending the Land Lease unless the amendment would be permitted under the amendment provisions of Appendix I to the Lease.

**Events of Default**

Each of the following shall constitute an "Event of Default" under the Lease:

(a) Failure by the State and the State Agency to pay or cause to be paid any Base Rent Payment required to be paid thereunder at the time set forth therein;

(b) Failure by the State or the State Agency to observe or perform any covenant, agreement, term or condition on its part to be observed or performed thereunder, other than as set forth in the Lease, for a period of thirty (30) days after written notice from WFOA, or from the Owners of not less than 25% in aggregate Principal Component evidenced and represented by the Certificates then Outstanding, to the State Treasurer specifying such failure and requesting that it be remedied; provided, however, that such period shall be extended for not more than sixty (60) days if such failure cannot be corrected within such period, and corrective action is commenced by the State within such period and diligently pursued until the failure is corrected; and

(c) Inability of the State to generally pay its debts as such debts become due, or admission by the State, in writing, of its inability to pay its debts generally, or the making by the State of a general assignment for the benefit of creditors, or the institution of any proceeding by or against the State seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, reimbursement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or for appointment of a receiver, trustee, or other similar officer of it or any substantial part of its property, or the taking of any action by the State Agency to authorize any of the actions set forth above in this Section (c); and

(d) If the State's interest under the Lease or any part hereof shall be assigned, sublet or transferred other than as provided herein, either voluntarily or by operation of law; and

(e) If the State shall abandon or vacate the Property.

Notwithstanding the foregoing provisions hereof, if by reason of *force majeure* the State is unable in whole or in part to carry out the covenants, agreements, terms and conditions on its part contained in the Lease, other than its obligation to pay any Base Rent Payment due and payable hereunder the State shall not be deemed in default during the continuance of such inability. The term "*force majeure*" means, without limitation, the following: acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or the State or their respective departments, agencies or officials, or any civil or military authority; insurrections; riots; landslides; volcanoes; earthquakes; fires; storms; droughts; floods; explosions; breakage or accident to machinery, transmission pipes or canals or any other cause or event not reasonably within the control of the State and not resulting from its negligence. The State agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the State from carrying out its agreements hereunder; provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the State and the State shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the State unfavorable to the State.

ANYTHING HEREIN TO THE CONTRARY NOTWITHSTANDING, A PERMITTED TERMINATION EVENT SHALL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE LEASE.

**Remedies**

Whenever an Event of Default under the Lease shall have occurred and be continuing, WFOA shall have the following rights and remedies:

(a) *Continuation; Reentry and Reletting*. WFOA may continue the Lease in full force and effect, and (i) collect rent and other amounts as they become due thereunder, (ii) enforce every other term and provision thereof to be observed or performed by the State or the State Agency, and (iii) exercise any and all rights of entry and reentry upon the Property. In the event that WFOA does not elect to terminate the Lease in the manner provided pursuant to the Lease, the State agrees to observe and perform all terms and provisions therein to be observed or performed by it, and, if the Property is not relet, to pay the full amount of the rent and other amounts due thereunder for the term of the Lease, or, if the Property or any part thereof is relet, to pay any deficiency that results therefrom, in each case at the same time and in the same manner as otherwise provided therein, and notwithstanding any reentry or reletting by WFOA, or suit in unlawful detainer or otherwise brought by WFOA for the purpose of effecting such re-entry or obtaining possession of all or any part of the Property. Should WFOA elect to re-enter or obtain possession of all or any part of the Property, the State and the State Agency irrevocably appoint WFOA as their agent and attorney-in-fact (i) to relet the Property, or any part thereof, from time to time, either in the name of WFOA or otherwise, upon such terms and conditions and for such use and period as WFOA may determine in its discretion, (ii) to remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (iii) to place such personal property in storage in any warehouse or other suitable place for the State in the county in which such personal property is located, for the account of and at the expense of the State. The State shall be liable for, and agrees to pay to WFOA, WFOA's costs and expenses in connection with reentry of the Property, removal and storage of any personal property, and reletting of the Property. The State agrees that the terms of the Lease constitute full and sufficient notice of the right of WFOA to reenter and relet the Property or any part thereof without effecting a surrender or termination of the Lease. Termination of the Lease upon an Event of Default shall be effected solely as provided in the Lease. The State further waives any right to, and releases, any rental obtained by WFOA upon reletting in excess of the rental and other amounts otherwise due under the Lease.

(b) *Termination*. WFOA may terminate the Lease, but solely upon written notice by WFOA to the State Treasurer of such election. No notice to pay rent, notice of default, or notice to deliver possession of the Property or of any part thereof, nor any entry or reentry upon the Property or any part thereof by WFOA, nor any proceeding in unlawful detainer or otherwise brought by WFOA for the purpose of effecting such reentry or obtaining possession, nor any other act shall operate to terminate the Lease, and no termination of the Lease on an account of an Event of Default shall be or become effective by operation of law or acts of the Parties thereto or otherwise, unless and until such notice of termination shall have been given by WFOA. The State agrees that no surrender of the Property or any part thereof, nor any termination of the Lease by the State shall be valid or effective in any manner or for any purpose whatsoever unless such notice of termination shall have been given by WFOA. Upon such termination, WFOA may (i) reenter the Property or any part thereof and remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (ii) to place such personal property in storage in any warehouse or other suitable place for the State in the county in which such personal property is located, for the account of and at the expense of the State. Upon such termination, the State's right to possession of the Property shall terminate, and the State shall surrender possession thereof to WFOA. In the event of such termination, the State shall remain liable to WFOA for damages in an amount equal to the rent and other amounts that would have been due under the Lease for the balance of the term thereof, less the net proceeds, if any, of any reletting of the Property or any part thereof by WFOA subsequent to such termination, after deducting the expenses incurred by WFOA in connection with any such reentry, removal and storage of personal property, and reletting. WFOA shall be entitled to collect damages from the State on the respective Base Rent Payment Dates, or alternatively, WFOA may accelerate the State's obligations under the Lease and recover from the State (i) the worth at the time of award of the unpaid rental which had been earned at the time of termination, (ii) the worth at the time of award of the amount by which the unpaid rental which would have been earned after the termination until the time of award exceeds the amount of such rental loss that the State proves could have been reasonably avoided, (iii) the worth at the time of award by which the unpaid rental for the balance of the term of the Lease after the time of award exceeds the amount of rental loss that the State proves could reasonably have been avoided, and (d) any other amount necessary to compensate WFOA for all the detriment proximately caused by the State's failure to perform its obligations under the Lease, or which in the ordinary course would be likely to result therefrom, including but not limited to WFOA's expenses in connection with reentry of the Property, removal and storage of any personal property, and reletting of the Property. The worth at the time of award shall be computed using a discount rate equal to the composite Interest Component evidenced and represented by the Certificates.

(c) *Other Remedies*. In addition to the other remedies set forth in the Lease, upon the occurrence and continuance of an Event of Default, WFOA shall be entitled to proceed to protect and enforce the rights vested in them by the Lease or by law. The terms and provisions of the Lease and the duties and obligations of the State thereunder, and the officers and employees thereof, shall be enforceable by WFOA by an action at law or in equity, for damages or for specific performance, or for writ of mandate, or by other appropriate action, suit or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, WFOA shall have the right to bring the following actions:

(i) Accounting. By action or suit in equity to require the State or any State Agency and its officers and employees to account as the trustee of an express trust;

(ii) Injunction. By action or suit in equity to enjoin the violation of the rights of WFOA.

(iii) Mandate. By writ of mandate or other action, suit or proceeding at law or in equity to enforce WFOA's rights against the State or the State Agency and its officers and employees, and to compel the State to perform and carry out its duties and obligations under the law and its covenants and agreements with WFOA as provided therein.

In the event that WFOA shall prevail in any action, suit or proceeding brought to enforce any of the terms of provisions of the Lease, the State shall be liable for the reasonable attorneys' fees of WFOA in connection therewith.

The State waives any and all claims for damages caused or which may be caused by WFOA in reentering and taking possession of the Property or any part thereof as provided in the Lease, and all claims for damages that may result from the destruction of or injury to the Property or any part thereof, and all claims for damages to or loss of any personal property that may be in or upon the Property.

**No Remedy Exclusive; Non-Waiver**

No remedy conferred upon or reserved to WFOA under the Lease or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Lease or now or thereafter existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Event of Default shall impair any such right or remedy or shall be construed to be a waiver of such default or Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to WFOA, it shall not be necessary to give any notice, other than such notice as may be required under the Lease. A waiver by WFOA of any default or Event of Default shall not constitute a waiver of any subsequent default or Event of Default under the Lease, and shall not affect or impair the rights or remedies of WFOA in connection with any such subsequent default or Event of Default.

No acceptance of less than the full amount of a rental payment due shall constitute an accord and satisfaction or compromise of any such payment unless WFOA specifically agrees to such accord and satisfaction or compromise in writing.

**Default by WFOA**

Anything in the Lease to the contrary notwithstanding, WFOA shall not be in default in the observance or performance of any of the covenants, agreements, terms or conditions to be observed or performed by it thereunder unless and until WFOA shall have failed to observe or perform such covenant, agreement, term or condition for a period of sixty (60) days after written notice by the State Treasurer to WFOA specifying such failure and requesting that it be remedied; *provided, however*, that such period shall be extended for such additional time as shall be reasonably required to correct such failure if corrective action is commenced by WFOA within such period and diligently pursued until the failure is corrected.

**Term**

The term of the Lease shall commence on the Dated Date, and shall end on July 1, 2018, unless such term is extended or sooner terminated as hereinafter provided. If on such date, all amounts due shall not have been paid or the payment thereof duly provided for pursuant to the Lease, then the term of the Lease shall be extended until ten (10) days after all amounts due thereunder shall have been paid or the payment thereof so provided for, except that the term of the Lease shall in no event be extended beyond July 1, 2023. If prior to July 1, 2018, all amounts due under the Lease shall have been paid or the payment thereof so provided for, the term of the Lease shall end ten (10) days thereafter or ten (10) days after written notice by the State Treasurer to WFOA, whichever is earlier.

**Termination**

The State agrees, upon the termination or expiration of the Lease as to any parcel of Property, to quit and surrender such Property in the same good order, condition and repair as the same was in at the time of commencement of the term of the Lease, except for acts of God, reasonable wear and tear, and any actions by the State Agency in accordance herewith that affect the condition of the Property. The State agrees that any permanent improvements and structures existing upon the Property at the time of such termination or expiration of the Lease shall remain thereon. The State shall thereafter execute, acknowledge and deliver to WFOA such instruments of further assurance as in the reasonable opinion of WFOA are necessary or desirable to confirm WFOA's leasehold right, title and interest in and to such Property.

## THE LAND LEASE

The Land is leased by Eastern Washington University, a state higher education institution (the "University"), to the State Agency for a term of 99 years commencing February 1, 2002, and ending January 31, 2101, for the purpose of construction and operation by the State Agency of the archives and records management facility comprising the Project.

Consideration for the lease consists of provision by the State Agency to the University of certain nonmonetary consideration, including making provision for certain joint use of classroom and conference space and work-study and internship opportunities for certain University students.

The State Agency is responsible for all utilities, taxes and assessments, maintenance and repair in respect of the leased premises.

Pursuant to the Land Lease, the University has consented to such subleases and assignments as necessary to secure financing through issuance of the Certificates for construction of the Project.

## THE SITE LEASE

**Sublease of the Site; Ownership**

Under the Site Lease

(a) The State subleases to WFOA and WFOA hires from the State, on the terms and conditions therein set forth, the real property and all improvements thereon described in the Site Lease subject to all easements, covenants, conditions and restrictions existing as of the date thereof.

(b) The State Agency represents and warrants that it holds a leasehold interest in the Site, subject only to Permitted Encumbrances.

**Term**

The term of the Site Lease commences on the Dated Date, and ends on the termination date of the Lease, unless such term is extended or sooner terminated as thereinafter provided. If on such date, the Lease shall not be discharged by its terms, then the term of the Site Lease shall be extended until ten (10) days after all amounts due under the Lease shall have been paid and the Lease shall have been discharged by its terms, except that the term of such Site Lease shall in no event be extended beyond July 1, 2023. If prior to July 1, 2018, all amounts due under the Lease shall have been paid and the Lease shall have been discharged by its terms, the term of the Site Lease shall end ten (10) days thereafter or ten (10) days after written notice by the State Agency to WFOA, whichever is earlier.

**Rental**

WFOA shall pay to the State, for the benefit of the State Agency pursuant to the Lease, as and for the total rental due hereunder, the amount set forth therein (the "Prepaid Site Lease Rent"), all of which prepaid rental shall be payable on the Closing Date. The Parties hereto thereby agree that said amount represents fair consideration for the leasehold interest being transferred thereunder, given the purposes, terms and provisions hereof. Such rental shall be paid from the proceeds of sale of the Certificates. WFOA shall not be obligated to pay such rental other than from the proceeds of the Certificates. The State Agency covenants and agrees to apply such rental payment solely for the purpose of paying or reimbursing its Project Costs and related costs as set forth in the Lease. Anything therein to the contrary notwithstanding, WFOA hereby waives any right that it may have under the laws of the State to a rebate or repayment of any portion of such rental in the event that there is substantial interference with the use or right to possession by WFOA of the Site or any portion thereof as a result of material damage, destruction or condemnation.

**Purpose**

WFOA shall use the the Site solely for the purpose of leasing the Property to the State pursuant to the Lease and for such purposes as may be incidental thereto; *provided*, that in the event of a default by the State under the Lease, WFOA may exercise the remedies provided therein.

**Assignments and Subleases**

(a) Under the Site Lease, WFOA is not permitted to grant, sell, assign, mortgage, pledge, sublet or transfer any of its right, title or interest in, to or under the Site Lease or the related Site except as expressly provided in the Assignment and the Lease, without the prior written consent of the State Agency. The State Agency consents to the sublease of the Property pursuant to the Lease, and the assignment of the WFOA's right, title and interest thereunder to the Fiscal Agent pursuant to the related Assignment for the benefit of the Owners of the Certificates.

(b) Upon the occurrence and continuance of an Event of Default or Agency Event of Default with respect to the Property, WFOA has the right, pursuant to the related Assignment, Trust Agreement and Lease, to sublease all or any portion of the Property; provided, that the subtenant and the terms and provisions of the sublease shall be subject to the prior written approval of the State Agency, which approval shall not be unreasonably withheld or delayed.

**Right of Entry**

The State Agency reserves the right for any of its duly authorized representatives to enter upon the Site at any reasonable time (or in an emergency at any time) to inspect the same, or to make any repairs, improvements or changes necessary for the preservation thereof.

**Termination**

WFOA agrees, upon the termination or expiration of the Site Lease, to quit and surrender the Site in the same good order, condition and repair as the same was in at the time of commencement of the term thereunder, except for acts of God, reasonable wear and tear, and any actions by the State or the State Agency that affect the condition of the Site. WFOA agrees that any permanent improvements and structures existing upon the Site at the time of such termination or expiration of the Site Lease shall remain thereon and title thereto shall vest in the State Agency. WFOA shall thereafter execute, acknowledge and deliver to the State Agency such instruments of further assurance as in the reasonable opinion of the State Agency are necessary or desirable to confirm the State Agency's right, title and interest in and to the Site.

**Default**

In the event that WFOA shall be in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, which default continues for sixty (60) days following notice and demand for correction thereof to WFOA, the State may exercise any and all remedies granted by law, except that, as described in Appendix I thereto, no merger of the Site Lease shall be deemed to occur as a result thereof; *provided, however*, that the State shall have no power to terminate the Site Lease by reason of any default on the part of WFOA; and *provided further*, that so long as any Certificates are outstanding and unpaid in accordance with the terms of the Trust Agreement and the Lease, the Base Rent Payments or Additional Rent or any part thereof payable to WFOA shall continue to be paid to WFOA. So long as the Fiscal Agent shall duly perform the terms and conditions of the Site Lease, the Lease and the Trust Agreement, the Fiscal Agent shall be deemed to be and shall become the tenant of the State Agency hereunder and shall be entitled to all of the rights and privileges granted to WFOA hereunder and under the Assignment, the Lease and the Trust Agreement.

**Waiver**

No delay or omission to exercise any right or remedy accruing upon a default thereunder shall impair any such right or remedy or shall be construed to be a waiver of such default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the State Agency hereunder, it shall not be necessary to give any notice, other than such notice as may be required thereunder. A waiver by the State Agency of any default thereunder shall not constitute a waiver of any subsequent default thereunder, and shall not affect or impair the rights or remedies of the State Agency in connection with any such subsequent default.

**Quiet Enjoyment**

WFOA and its authorized assignees and sublessees at all times during the term of the Site Lease, subject to the provisions thereof, shall peaceably and quietly have, hold and enjoy all of the Site without suit, trouble or hindrance from the State.

**Taxes**

The State covenants and agrees to pay any and all Impositions of any kind or character, including but not limited to possessory interest taxes, levied or assessed upon the Property (including both land and improvements), or with respect to the Site Lease or the lease of the Property pursuant to the Lease; *provided, however*, that the State shall not pay any possessory interest taxes levied as a result of any assignment or sublease of or with respect to all or any part of the Property then in effect between WFOA and any assignee or subtenant of WFOA (other than as lessee under the Lease).

**Eminent Domain; Loss of Title**

In the event the whole or any part of the Property is taken permanently or temporarily under the power of eminent domain (or sold under threat of condemnation), or there is a loss of title to the whole or any part of such Property, the interest of WFOA in the Property shall be recognized and is determined to be an amount not less than the then unpaid indebtedness incurred by the State Agency under the Lease. The term "unpaid indebtedness," as used in the preceding sentence, includes all unpaid Principal Components, Interest Components and all other payments required to be made by the State Agency pursuant to the Lease, until all Rent Payments due thereunder have been paid or the payment thereof provided for in accordance therewith. The amount of any such award, judgment or payment shall be paid to the WFOA, and the balance, if any, in excess of the unpaid indebtedness shall be paid to the State Agency.

**THE TRUST AGREEMENT**

**Project Fund**

The State Treasurer shall establish and maintain the Project Fund as agent for WFOA. The moneys in the Project Fund shall be held by the State Treasurer in trust for the benefit of the Owners and applied to the payment of the Project Costs (including reimbursement to WFOA, or to the State Treasurer or the State Agency, in their capacity as agent of WFOA, for any such costs theretofore paid by such Party), including but not limited to the Costs of Issuance. Moneys in the Project Fund shall be invested by the State Treasurer in Qualified Investments. When the Project and the Property have been acquired, constructed, financed, or refinanced and all of the Project Costs and Costs of Issuance have been paid, the State Treasurer shall transfer any remaining balance in the Project Fund to the Certificate Fund.

**Base Rent Payments; Funds and Accounts; Investments**

*Base Rent Payments Held in Trust.* The Base Rent Payments are irrevocably pledged and shall be applied to pay the Principal Component and Interest Component evidenced and represented by the Certificates when due, and shall not be used or applied for any other purpose while any of the Certificates remain Outstanding. This pledge shall constitute a first and exclusive lien on and security interest in the Base Rent Payments for the benefit of the Owners of the Certificates.

All Base Rent Payments shall be paid directly by the State Treasurer to the Fiscal Agent, as assignee of WFOA, and if received by WFOA at any time shall be deposited by WFOA with the Fiscal Agent within one (1) Business Day after the receipt thereof. All Base Rent Payments shall be immediately deposited by the Fiscal Agent in the appropriate funds provided in the Trust Agreement, whereupon they shall be applied immediately to the payment or prepayment, as appropriate, of Certificates except as otherwise expressly provided in the Trust Agreement, but if for any reason not so applied, held in trust by the Fiscal Agent in such fund for the benefit of the Owners from time to time.

*Deposit of Base Rent Payments*. The Fiscal Agent agrees to establish, maintain and hold in trust the Certificate Fund for so long as any Certificates remain Outstanding. The Fiscal Agent shall deposit all Base Rent Payments, including prepayments, in the following Accounts within the Certificate Fund, each of which the Fiscal Agent agrees to establish and maintain, at the times, in the manner and in the order of priority as set forth below, and the moneys in each of such Accounts shall be disbursed only for the purposes and uses authorized in the Lease.

(a) Interest Account. On each Interest Payment Date, the Fiscal Agent shall deposit in the Interest Account that amount of moneys evidencing the Interest Components due on such Interest Payment Date. Moneys in the Interest Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the interest evidenced and represented by the Certificates due and payable on such Interest Payment Date.

(b) Principal Account. On each Principal Payment Date, the Fiscal Agent shall deposit in the Principal Account that amount of moneys evidencing the Principal Components due on such Principal Payment Date. Moneys in the Principal Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the principal evidenced and represented by the Certificates due and payable on such Principal Payment Date.

(c) Prepayment Account. On each date on which the State Treasurer makes a prepayment of Principal Components at the Prepayment Price therefor (and related payments of Interest Components, if any) pursuant to the Lease, the Fiscal Agent shall deposit in the Prepayment Account the amount of such prepayment and related payments. Moneys in the Prepayment Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the Prepayment Price evidenced and represented by Certificates prepaid on such date pursuant to the Trust agreement and the accrued interest, if any, evidenced and represented by the Certificates so prepaid.

*Application of Insurance Proceeds and Eminent Domain Awards.* The proceeds of any casualty insurance with respect to any of the Property, if received by the State or the State Agency, shall immediately be paid to the Fiscal Agent. Within ninety (90) days of payment of such proceeds to the Fiscal Agent, the State Agency shall notify the Fiscal Agent in writing as to whether it elects to repair or replace such Property. In the event that the State Agency elects to repair or replace such Property, such amounts shall be disbursed by the Fiscal Agent to pay the costs of such repair or replacement. In the event that the State Agency elects not to repair or replace the property damaged, destroyed or taken, the Fiscal Agent shall transfer all such amounts to the Prepayment Account and apply such amounts to the prepayment of Outstanding Certificates pursuant to the Trust Agreement at the earliest possible Prepayment Date. Any eminent domain award, the proceeds of any sale under threat of condemnation, and the net proceeds of any title insurance in connection with a loss of title with respect to any Property, if received by the State or the State Agency, shall immediately be paid to the Fiscal Agent. The Fiscal Agent shall transfer all such amounts to the Prepayment Account and apply such amounts to the prepayment of Outstanding Certificates pursuant to the Trust Agreement at the earliest possible Prepayment Date. To the extent that such amounts are not sufficient, in whole or in part, to prepay Principal Components evidenced and represented by the Certificates in Authorized Denominations, such amounts shall be deposited in the Certificate Fund and applied on the next Base Rent Payment Dates in the manner set forth in the Trust Agreement.

*Investment of Moneys.* All moneys in any of the funds or accounts established and maintained by the Fiscal Agent pursuant to the Trust Agreement shall be invested by the Fiscal Agent, at the Written Direction of the State Treasurer, solely in Qualified Investments. The written investment instruction to the Fiscal Agent shall contain a statement that such investments are Qualified Investment as required by the Trust Agreement. Notwithstanding anything to the contrary contained therein, in the absence of written investment instructions directing the Fiscal Agent by noon of the Business Day preceding the day when investments are to be made, the Fiscal Agent is directed to invest available funds in Qualified Investments described in the Trust Agreement, until such written instruction is received by the Fiscal Agent.

Qualified Investments may be purchased at such prices as the Fiscal Agent may in its discretion determine or as may be directed by the State Treasurer. All investment instructions to the Fiscal Agent shall be subject to the limitations set forth in the Trust Agreement, the limitations as to maturities set forth in the Trust Agreement and such additional limitations or requirements consistent with the foregoing as may be established by the State Treasurer.

Moneys in all funds and accounts maintained by the Fiscal Agent shall be invested in Qualified Investments maturing not later than the date on which such moneys will be required for the purposes specified in the Trust Agreement. Notwithstanding anything else in the Trust Agreement, any moneys held for the payment of Certificates pursuant to the Trust Agreement, shall be invested only at the Written Direction of the State Treasurer and only in Government Obligations (or in shares of a taxable government money market fund restricted to Government Obligations rated in the highest rating category applicable to such funds by at least one Rating Agency) which mature not later than the date on which it is estimated that such moneys will be required to pay such Certificates (but in any event maturing in not more than thirty days).

All interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Trust Agreement shall be deposited in the fund or account which gave rise to the investment earnings. For the purpose of determining the amount in any fund or account, all Qualified Investments credited to such fund or account shall be valued at the lesser of cost or par value.

Subject to any written instruction from the State Treasurer pursuant to the Trust Agreement, moneys in any and all funds and accounts may be commingled for investment purposes; *provided*, that the Fiscal Agent shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Trust Agreement. The Fiscal Agent and its affiliates may act as principal or agent in the making or disposing of any investment. The Fiscal Agent may sell or present for redemption any Qualified Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Qualified Investment is credited, and the Fiscal Agent shall not be liable or responsible for any loss resulting from such investment or disposition. The Fiscal Agent and its affiliates may act as sponsor, advisor or depository with regard to any Qualified Investments.

*Non-Presentment of Certificates.* In the event that any Certificates shall not be presented for payment when the principal or Prepayment Price evidenced and represented thereby becomes due, either at a Principal Payment Date, Prepayment Date or otherwise, if moneys sufficient to pay such principal or Prepayment Price shall have been deposited in the Principal Account or the Prepayment Account, as applicable, all liability of the Fiscal Agent and the State to the Owner thereof for payment with respect to such Certificate shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Fiscal Agent to hold such moneys (subject to the Trust Agreement), without liability for interest thereon, for the benefit of the Owner of such Certificate who shall thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part under the Trust Agreement or on or with respect to such Certificate.

*Repayment to State Treasurer.* When there are no longer any Certificates Outstanding, and all fees, charges and expenses of the Fiscal Agent and any Paying Agents have been paid or provided for, and all expenses of WFOA and the State Treasurer relating to the Lease and the Trust Agreement have been paid or provided for, and all other amounts payable thereunder have been paid, and the Trust Agreement has been discharged and satisfied, the Fiscal Agent shall pay to the State Treasurer any amounts remaining in any fund or account established and held under the Trust Agreement.

**Covenants of WFOA, the State and the Fiscal Agent**

*Compliance with Trust Agreement.* The Fiscal Agent will not execute or deliver any Certificates in any manner other than in accordance with the provisions of the Trust Agreement. WFOA, the State and the Fiscal Agent will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms thereof required to be complied with, kept, observed and performed by each of them.

*Compliance with Lease.* WFOA, the State and the Fiscal Agent, as assignee of WFOA, will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Lease required to be complied with, kept, observed and performed by each of them, and the Fiscal Agent will, to the extent required under the Trust Agreement, enforce such agreement against the State in accordance with its terms.

Neither the State nor WFOA will alter, amend or modify the Lease without the prior written consent of the Fiscal Agent. Such consent of the Fiscal Agent shall be given only (i) if the Fiscal Agent receives an Opinion of Counsel to the effect that such alterations, amendments or modifications will not have a material adverse effect on the interests of the Owners of the Certificates, or (ii) if the Fiscal Agent first obtains the written consent of the Owners of a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding to such alterations, amendments or modifications; *provided*, that no such alteration, amendment or modification shall reduce the amount or extend the time for payment of any Base Rent Payment without the prior written consent of the Owners of the Certificates evidencing and representing any portion thereof.

*Other Liens.* So long as any Certificates are Outstanding, WFOA, the State and the Fiscal Agent will not create or suffer to be created any pledge of, lien on or security interest in the Base Rent Payments other than the pledge and lien thereof and security interest thereunder.

*Prosecution and Defense of Suits.* The State will defend against every action, suit or other proceeding at any time brought against WFOA, the Fiscal Agent or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the Base Rent Payments or involving the rights or obligations of WFOA, the Fiscal Agent or any Owner; *provided*, *however*, that WFOA, the Fiscal Agent or any Owner, at its election and at its sole cost and expense, may appear in and defend any such action, suit or other proceeding.

*Accounting Records and Statements.* The Fiscal Agent will keep proper accounting records in accordance with corporate trust accounting standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the Base Rent Payments, and such accounting records shall be available for inspection by the State Treasurer or any Owner or agent duly authorized in writing at reasonable hours and under reasonable conditions. Not later than December 1 in each year, commencing on December 1, 2002 and continuing for so long as any Certificates are Outstanding, the Fiscal Agent will furnish, or cause to be furnished to the State Treasurer and any Owner who may so request (at the expense of such Owner) a complete statement covering the receipts, investment, deposits, application and disbursements of the Base Rent Payments for the twelve-month period ending on the preceding July 1.

Such records shall specify the fund or account to which each investment (or portion thereof) held pursuant to the Trust Agreement is to be allocated and shall set forth, in the case of each Qualified Investment, (i) its purchase price, (ii) identifying information, including par amount, coupon rate, and payment dates, (iii) the amount received at maturity or its sale price, as the case may be, (iv) the amounts and dates of any payments made with respect thereto, and (iv) such other documentation as is required by the State Treasurer in writing.

*Recording and Filing.* The Fiscal Agent, upon receipt of a Written Request of the State Treasurer, shall file, record, register, renew, refile and rerecord all such documents, including but not limited to the Site Lease, the Lease and the Assignment, as may be required by law in order to maintain a security interest in the Base Rent Payments, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to fully perfect, preserve and protect the security of the Owners and the rights and interests of the Fiscal Agent; *provided*, *however*, that the Fiscal Agent will not be required to execute a special or general consent to service of process, or to qualify as a foreign corporation in connection with any such filing, recording, registration, refiling or rerecording in any jurisdiction in which it is not now so subject.

*Further Assurances.* Whenever and so often as requested to do so by the Fiscal Agent or any Owner, WFOA and the State Treasurer will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or desirable in order to further and more fully vest in the Fiscal Agent and the Owners all advantages, benefits, interests, powers, privileges and rights conferred upon them hereby and by the Lease.

**Events of Default; Remedies**

*Events of Default; Remedies; Waiver.* If an Event of Default (as that term is defined in Appendix I thereto) shall occur and be continuing, then such Event of Default shall constitute a default under the Trust Agreement, and in each and every such case during the continuance of such Event of Default, the Fiscal Agent may, and upon the written request of the Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding and receipt of indemnity satisfactory to it shall, exercise the remedies provided to WFOA and the Fiscal Agent, as assignee of WFOA, under the Trust Agreement and under the Lease.

The Fiscal Agent may, in its discretion, waive any default or Event of Default and its consequences under the Trust Agreement and annul any notice thereof by written notice to the State Treasurer to such effect, and thereupon the respective rights of the Parties shall be as they would have been if such default or Event of Default had not occurred.

*Other Remedies of the Fiscal Agent*. Under the Trust Agreement, the Fiscal Agent may, and upon the written request of the Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding and receipt of indemnity satisfactory to it, shall:

(a) by mandamus or other action or proceeding or suit, action or proceeding at law or in equity enforce its rights against the State or the State Agency or any officer or employee thereof, and to compel the State or the State Agency or any such officer or employee to perform or carry out its duties under law and the agreements and covenants required to be performed by it or him or her contained therein and in the Lease;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Fiscal Agent; or

(c) by suit in equity upon the happening of any default under the Trust Agreement to require the State or the State Agency and its officers and employees to account as the trustee of an express trust.

*Application of Moneys.* If an Event of Default shall have occurred and be continuing, all moneys received by the Fiscal Agent shall be applied, first, to the payment of the reasonable costs and expenses incurred by the Fiscal Agent and the Owners to declare such default (including but not limited to the reasonable fees and expenses of their counsel and agents); second, to the payment of the Interest Components evidenced and represented by the Certificates accrued to the date of application thereof *pro rata* among the Owners entitled thereto; third, to the payment of the Principal Components evidenced and represented by the Certificates and the Prepayment Price, if any, then due *pro rata* among the Owners entitled thereto; and fourth, when no Certificates remain Outstanding, to pay or reimburse the State for its costs and expenses, including reasonable attorneys' fees, incurred in connection with the Certificates, Lease and Trust Agreement.

*Non-Waiver.* A waiver of any default or breach of duty or contract by the Fiscal Agent shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Fiscal Agent to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Fiscal Agent by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Fiscal Agent.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Fiscal Agent, the Fiscal Agent, WFOA and the State Treasurer shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

*Remedies Not Exclusive.* No remedy under the Trust Agreement conferred upon or reserved to the Fiscal Agent is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given thereunder or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

*Fiscal Agent May Enforce Claims Without Possession of Certificates.* All rights of action and claims under the Trust Agreement or Certificates may be prosecuted and enforced by the Fiscal Agent without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Fiscal Agent shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel, be for the ratable benefit of the Owners of the Certificates in respect of which such judgment has been recovered.

*Limitation on Actions by Owners.* The Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding shall have the right to direct the method and place of conducting any proceeding or remedy available to the Fiscal Agent, or exercising any trust or power conferred on the Fiscal Agent under the Trust Agreement or under the Lease in connection with the enforcement of the covenants, agreement, terms and conditions thereof; *provided*, that any such direction shall not be contrary to law, the Trust Agreement or the Lease, and is not unduly prejudicial to the interest of the Owners not joining in such direction; and *provided further*, that the Fiscal Agent may take any other action which it deems necessary or appropriate and not inconsistent with such direction.

No Owner shall have the right to institute any action, suit or proceeding for the enforcement thereof or of the Lease, or to pursue any remedy available under the Trust Agreement or under the Lease unless:

(a) the Fiscal Agent shall have been given written notice of an Event of Default by such Owner;

(b) the Owners of at least a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding respecting which there has been an Event of Default shall have requested the Trustee, in writing, to exercise the powers granted by the Trust Agreement or the Lease, or to institute such action, suit or proceeding, or to pursue such remedy in it or their name or names;

(c) the Fiscal Agent shall have been offered indemnity satisfactory to it against its costs, expenses and liabilities in connection therewith; and

(d) the Fiscal Agent shall have failed to comply with such request within sixty (60) days, or such shorter period as shall be reasonable under the circumstances.

*No Liability by WFOA to the Owners.* Except for the observance and performance of the agreements and covenants required to be observed and performed by it contained in the Lease and in the Trust Agreement, WFOA shall not have any obligation or liability to the Owners with respect to the Trust Agreement, or the payment when due of the Base Rent Payments by the State Agency, or with respect to the observance or performance by the State of the other agreements and covenants required to be observed and performed by the State contained therein, or with respect to preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rent Payments by the Fiscal Agent to the Owners, or with respect to the observance or performance by the Fiscal Agent of any agreements, covenants, terms or obligations required to be performed or observed by it contained in the Trust Agreement.

*No Liability by the State to the Owners*. Except for the payment when due of the Base Rent Payments and the observance and performance of the other agreements and covenants required to be observed and performed by it contained in the Lease and Trust Agreement, the State shall not have any obligation or liability to the Owners with respect to the Trust Agreement, or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rent Payments by the Fiscal Agent to the Owners, or with respect to the observance or performance by the Fiscal Agent of any agreements, covenants, terms or obligations required to be observed or performed by it contained in the Trust Agreement.

*No Liability by the Fiscal Agent to the Owners*. Except as expressly provided in the Trust Agreement, the Fiscal Agent shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rent Payments by the State, or with respect to the observance or performance by the State or WFOA of the other agreements and covenants required to be observed and performed by the them contained in the Lease or the Trust Agreement.

**The Fiscal Agent and Paying Agents**

*Appointment of Fiscal Agent; Duties, Immunities and Liabilities.* WFOA and the State Treasurer hereby appoint the Fiscal Agent to receive, deposit and disburse the Base Rent Payments, to prepare, execute, deliver and transfer the Certificates, and to perform the other functions and responsibilities set forth herein; all in the manner and subject to the terms and conditions set forth herein. By executing and delivering the Trust Agreement, the Fiscal Agent hereby accepts such appointment.

The Fiscal Agent shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Trust Agreement. The Fiscal Agent shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs. Notwithstanding any other provision of the Trust Agreement, the Fiscal Agent shall perform all duties required of it under the Trust Agreement.

No provision of the Trust Agreement shall be construed to relieve the Fiscal Agent from liability for its own negligent action or its own negligent failure to act, except that:

(e) Prior to an Event of Default under the Trust Agreement and after the curing of all Events of Default which may have occurred,

(i) the duties and obligations of the Fiscal Agent shall be determined solely by the express provisions of the Trust Agreement, and the Fiscal Agent shall not be liable except for the performance of such duties and obligations as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Fiscal Agent; and

(ii) in the absence of bad faith on the part of the Fiscal Agent, the Fiscal Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Fiscal Agent conforming to the requirements of the Trust Agreement; but in the case of any such certificate or opinion which by any provision hereof is specifically required to be furnished to the Fiscal Agent the Fiscal Agent shall be under a duty to examine the same to determine whether or not it conforms to the requirements of the Trust Agreement; and

(iii) At all times, regardless of whether or not any Event of Default shall exist,

(1) the Fiscal Agent shall not be liable for any error of judgment made in good faith by a duly authorized officer of the Fiscal Agent unless it shall be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts; and

(2) the Fiscal Agent shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority, or such other percentage as may be required hereunder, in aggregate Principal Component evidenced and represented by the Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Fiscal Agent, or exercising any trust or power conferred upon the Fiscal Agent under the Trust Agreement.

*Right of Fiscal Agent to Rely upon Documents, Etc.* Except as otherwise provided therein:

(a) The Fiscal Agent may rely and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, certificate or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any notice, request, direction, election, order or demand of the State Treasurer referred to therein shall be sufficiently evidenced by an instrument signed in the name of the State Treasurer by a Treasurer Representative, and any resolution of the State Treasurer may be evidenced to the Fiscal Agent by a certified copy thereof;

(c) The Fiscal Agent may consult with counsel (who may be counsel for the State or Certificate Counsel) and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it thereunder in good faith and in accordance with the opinion of such counsel;

(d) Whenever in the administration of the trusts of the Trust Agreement the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be in the Trust Agreement specifically prescribed) may, in the absence of negligence or bad faith on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a Certificate of the State Treasurer; and such Certificate of the State Treasurer shall, in the absence of negligence or bad faith on the part of the Fiscal Agent, be full warrant to the Fiscal Agent for any action taken or suffered by it under the provisions of the Trust Agreement in reliance thereon; and

(e) The Fiscal Agent may execute any of the trusts or powers under the Trust Agreement or perform any duties under the Trust Agreement either directly or by or through agents or attorneys, and the Fiscal Agent shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it under the Trust Agreement.

*Fiscal Agent Not Responsible for Recitals.*

(a) The recitals contained in the Trust Agreement and in the Certificates shall be taken as the statements of the State Treasurer, and the Fiscal Agent assumes no responsibility for the correctness of the same except (with respect to the Fiscal Agent) for its execution thereof. The Fiscal Agent makes no representation as to the validity or sufficiency of the Trust Agreement, Lease or of the assignment of the right to receive Base Rent Payments or of the Certificates. The Fiscal Agent shall not be accountable for the use or application by WFOA or the State of the proceeds of any of the Certificates executed or delivered under the Trust Agreement.

(b) In accepting the trust created by the Trust Agreement, the Fiscal Agent acts solely as Fiscal Agent for the Owners of Certificates and not in its individual capacity, and all Persons, including, without limitation, the Owners, having any claim against the Fiscal Agent arising from the Trust Agreement shall look only to the funds and accounts held by the Fiscal Agent under the Trust Agreement for payment, except as otherwise provided in the Trust Agreement. Under no circumstances shall the Fiscal Agent be liable in its individual capacity for the obligations evidenced and represented by the Certificates.

(c) The Fiscal Agent makes no representation or warranty, express or implied as to the title, value, design, compliance with specification or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the State or the State Agency of the Property. In no event shall the Fiscal Agent be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease or the Trust Agreement or for the existence, lease or use of the Property.

(d) No provision of the Trust Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement, or in the exercise of any of its rights or powers.

(e) The Fiscal Agent shall not be deemed to have knowledge of any default or Event of Default, except for the failure by the State to timely make any Base Rent Payments, unless and until an officer at the Fiscal Agent's corporate trust offices responsible for the administration of its duties hereunder shall have actual knowledge thereof or the Fiscal Agent shall have received written notice thereof at its corporate trust offices.

*Right of Fiscal Agent to Acquire Certificates*. The Fiscal Agent and its officers and directors may buy, sell, own, hold and deal in, or become the pledgee of, Certificates, may otherwise deal with or be engaged or have an interest in, any financial or other transaction with the State or WFOA, as either principal or agent, in the manner and to the same extent and with like effect as though it were not the Fiscal Agent under the Trust Agreement, and may act as agent, depositary or trustee for any committee or body of the Owners, of owners of other obligations of the State or WFOA as though it were not the Fiscal Agent under the Trust Agreement.

*Compensation of Fiscal Agent*. The State shall from time to time, subject to any written agreement then in effect with the Fiscal Agent, pay the Fiscal Agent compensation for its services and reimburse the Fiscal Agent for all its advances and expenditures hereunder, including but not limited to advances to and fees and expenses of accountants, agents, appraisers, consultants, counsel or other experts employed by it in the exercise and performance of its rights and obligations under the Trust Agreement; *provided*, *however*, that the Fiscal Agent shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds or accounts established under the Trust Agreement, although it may take whatever legal actions are lawfully available to it directly against the State.

*Qualifications of Fiscal Agent*. There shall at all times be a Fiscal Agent under the Trust Agreement which shall either be (a) the fiscal agency of the State selected pursuant to RCW Chapter 43.80; or (b) a bank, trust company or national association organized and doing business under the laws of the United States of America or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least fifty million dollars ($50,000,000), and subject to supervision or examination by federal or state authority. If such corporations or banking associations publish reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority referred to above, then for the purposes of this paragraph the combined capital and surplus of such corporations or banking associations shall be deemed to be their combined capital and surplus as set forth in their most recent reports of condition so published. In case at any time the Fiscal Agent shall cease to be eligible in accordance with these provisions, the Fiscal Agent shall resign immediately in the manner and with the effect specified in the Trust Agreement.

*Resignation and Removal of Fiscal Agent and Appointment of Successor Fiscal Agent*.

(a) The Fiscal Agent may at any time resign by giving written notice to the State Treasurer, the Paying Agents and to the Owners. Upon receiving such notice of resignation, the State Treasurer shall promptly appoint a successor Fiscal Agent by an instrument in writing. If no successor Fiscal Agent shall have been so appointed and have accepted such appointment within thirty (30) days after the giving of such notice of resignation, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, or any Owner who has been a bona fide Owner of a Certificate for at least six months may, on behalf of itself and others similarly situated, petition any such court for the appointment of a successor Fiscal Agent. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor Fiscal Agent.

(b) In case at any time either of the following shall occur:

(i) the Fiscal Agent shall cease to be eligible in accordance with the provisions of the Trust Agreement and shall fail to resign after written request therefor by the State Treasurer or by any Owner who has been a *bona fide* Owner of a Certificate for at least six months, or

(ii) the Fiscal Agent shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Fiscal Agent or of its property shall be appointed, or any public officer shall take charge or control of the Fiscal Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the State Treasurer may remove the Fiscal Agent and appoint a successor Fiscal Agent by an instrument in writing, or any such Owner may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Fiscal Agent and the appointment of a successor Fiscal Agent. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Fiscal Agent and appoint a successor Fiscal Agent.

(c) The State Treasurer or the Owners of a majority in aggregate Principal Component evidenced and represented by the Certificates at the time Outstanding may at any time remove the Fiscal Agent and appoint a successor Fiscal Agent by an instrument or concurrent instruments in writing signed by the State Treasurer or such Owners, as the case may be.

(d) Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent pursuant to any of the provisions of this section shall become effective upon acceptance of appointment by the successor Fiscal Agent, as provided therein. Anything therein to the contrary notwithstanding, the State Treasurer may not remove the Fiscal Agent without cause if an Event of Default shall have occurred and be continuing.

*Acceptance of Trust by Successor Fiscal Agent*. Any successor Fiscal Agent appointed as provided therein shall execute, acknowledge and deliver to the State Treasurer and to its predecessor Fiscal Agent an instrument accepting such appointment thereunder, and thereupon the resignation or removal of the predecessor Fiscal Agent shall become effective and such successor Fiscal Agent, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts hereunder, with like effect as if originally named as Fiscal Agent herein; but, nevertheless, on the Written Request of the State Treasurer or the request of the successor Fiscal Agent, the Fiscal Agent ceasing to act shall execute and deliver an instrument transferring to such successor Fiscal Agent, upon the trusts herein expressed, all the rights, powers and trusts of the Fiscal Agent so ceasing to act. Upon request of any such successor Fiscal Agent, the State Treasurer and WFOA shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor Fiscal Agent all such rights, powers and duties.

No successor Fiscal Agent shall accept appointment as provided therein unless at the time of such acceptance such successor Fiscal Agent shall be eligible under the provisions thereof. Upon acceptance of appointment by a successor Fiscal Agent as provided therein, the State Treasurer or such successor Fiscal Agent shall give the Owners notice of the succession of such Fiscal Agent to the trusts thereunder in the manner prescribed therein for the giving of notice of resignation of the Fiscal Agent.

*Merger or Consolidation of Fiscal Agent*. Any corporation or banking association into which the Fiscal Agent may be merged or with which it may be consolidated, or any corporation or banking association resulting from any merger or consolidation to which the Fiscal Agent shall be a party, or any corporation or banking association succeeding to the business of the Fiscal Agent, shall be the successor of the Fiscal Agent thereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything therein to the contrary notwithstanding; provided, that such successor Fiscal Agent shall be eligible under the provisions thereof.

*General Applicability*. Whether or not herein or therein expressly so provided, every provision of the Trust Agreement, Lease and Assignment relating to the conduct or affecting the liability of or affording protection to the Fiscal Agent shall be subject to the provisions thereof.

*Paying Agents*. The State Treasurer may appoint one or more Paying Agents (which shall meet the qualifications of the Fiscal Agent set forth therein) in such place or places as the State Treasurer may designate, for the payment of the principal, Prepayment Price and the interest evidenced and represented by the Certificates. All provisions thereof which apply to any Fiscal Agent shall apply to any Paying Agent appointed hereunder. It shall be the duty of the Fiscal Agent to make such arrangements with any such Paying Agent as may be necessary to assure, to the extent of the moneys held by the Fiscal Agent for such payment, the prompt payment of the principal, Prepayment Price and the interest evidenced and represented by the Certificates. The State Treasurer hereby appoints the fiscal agencies of the State as designated from time to time pursuant to RCW Chapter 43.80 as Paying Agents hereunder.

**Amendment or Supplement of Trust Agreement**

*Amendment or Supplement; Consents.* The Trust Agreement and the rights and obligations of the State, the Owners, the Fiscal Agent or any Paying Agent thereunder may be amended or supplemented at any time as provided in such Trust Agreement. No such amendment or supplement shall (1) extend the stated Principal Payment Date of any Certificate, or reduce the rate of interest evidenced and represented thereby, or extend the time of payment of such interest, or reduce the amount of the Principal Component evidenced and represented thereby, or reduce any Prepayment Price evidenced and represented thereby, without the prior written consent of the Owner of the Certificate so affected; or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment thereof or supplement thereto; or (3) modify any of the rights or obligations of the Fiscal Agent or any Paying Agent without its prior written consent thereto.

*Disqualified Certificates.* Certificates owned or held by or for the account of the State (but excluding Certificates held in any pension or retirement fund of the State) or any State Agency shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided therein, and the Fiscal Agent may adopt appropriate regulations to require each Owner, before consent provided for therein shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in the Trust Agreement.

*Endorsement or Replacement of Certificates After Amendment or Supplement.* After the effective date of any action taken as provided above, the Fiscal Agent may determine that the Certificates may bear a notation by endorsement in a form approved by the Fiscal Agent as to such action, and in that case upon demand of the Owner of any Outstanding Certificate and presentation of such Owner's Certificate for such purpose at the Principal Office of the Fiscal Agent a suitable notation as to such action shall be made on such Certificate. If the Fiscal Agent shall so determine, new Certificates so modified as in the opinion of the Fiscal Agent shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the Principal Office of the Fiscal Agent without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

*Amendment by Mutual Consent.* The provisions of this Article shall not prevent any Owner from accepting any amendment to the particular Certificates held by it; *provided*, that due notation thereof is made on such Certificates.

**Defeasance of Certificates; Discharge of Trust Agreement**

*Discharge of Trust Agreement*. When the obligations of the State under the Lease shall cease pursuant to the provisions of the Lease contained therein (except for the right of the Fiscal Agent and the obligation of the State to have the money and Qualified Investments applied to the payment of Base Rent Payments), then and in that case the obligations created by the Trust Agreement shall thereupon cease, terminate, become void and be completely discharged except for the right of the Owners and the obligation of the Fiscal Agent to apply such moneys and Qualified Investments to the payment of the Certificates as therein set forth and the right of the Fiscal Agent to collect any fees or expenses due thereunder. The Fiscal Agent shall turn over to the State Treasurer, as an overpayment of Base Rent Payments, any surplus in the Certificate Fund and all balances remaining in any other funds or accounts other than moneys and Qualified Investments held for the payment of the Certificates on the Principal Payment Dates or Prepayment Dates thereof, which moneys and Qualified Investments shall continue to be held by the Fiscal Agent in trust for the benefit of the Owners and shall be applied by the Fiscal Agent to the payment, when due, of the principal, Prepayment Price and interest evidenced and represented by the Certificates, and after such payment, the Trust Agreement shall become void. The Fiscal Agent shall thereafter execute and deliver to the State such other documents and instruments as may be necessary or desirable to evidence such discharge and satisfaction of the Trust Agreement.

*Defeasance of Certificates*. Any Outstanding Certificates shall be deemed to have been paid with the meaning and effect expressed in the preceding paragraph if there shall be irrevocably deposited and held in trust by the Fiscal Agent moneys or Qualified Investments in the amount necessary to pay or prepay the principal or Prepayment Price and interest evidenced and represented thereby as provided therein.

If moneys or Qualified Investments are so deposited with and held by the Fiscal Agent as therein provided, the Fiscal Agent shall within thirty (30) days after such moneys or Qualified Investments shall have been deposited with it, mail a notice, first class postage prepaid, to the Owners of the Certificates that have been defeased at the addresses listed on the registration books kept by the Fiscal Agent pursuant to the Trust Agreement, setting forth (a) the date or dates fixed for payment or prepayment of the Certificates, (b) a description of the moneys or Qualified Investments so held by it, and (c) that such Certificates have been defeased and are no longer deemed to be Outstanding under the Trust Agreement, and/or that the Trust Agreement has been released and discharged in accordance with the provisions thereof.

*Deposit of Money or Securities with Fiscal Agent.* Whenever in the Trust Agreement or Lease it is provided or permitted that there be deposited with or held in trust by the Fiscal Agent money or securities (certified to be sufficient by a report of an independent certified public accountant or firm of accountants, or an independent financial advisor or consultant or firm of such advisors or consultants) in the necessary amount to pay or prepay the principal and interest evidenced and represented by all or a portion of the Certificates, the money or securities to be so deposited or held may include money or securities held by the Fiscal Agent in the funds and accounts established pursuant to the Trust Agreement and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount evidenced and represented by such Certificates and all unpaid interest evidenced and represented thereby to the respective Principal Payment Dates thereof, except that, in the case of Certificates which are to be prepaid prior to their respective Principal Payment Dates and in respect of which notice of such prepayment shall have been given as in the Trust Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, the amount to be deposited or held shall be the Prepayment Price plus accrued interest to such date of prepayment, if any, evidenced and represented by such Certificates; or

(b) Government Obligations, the principal of and interest on which when due will provide money sufficient, without reinvestment, to pay the principal or Prepayment Price, and accrued interest to the Principal Payment Date or to the Prepayment Date, as the case may be, evidenced and represented by the Certificates to be paid or prepaid, as such amounts become due; *provided* that, in the case of Certificates which are to be prepaid prior to the Principal Payment Date thereof, notice of such prepayment shall have been given as in the Trust Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice;

*further provided*, in each case, that the Fiscal Agent shall have been irrevocably instructed (by the terms of the Trust Agreement and Lease or by Written Request of the State Treasurer) to apply such money to the payment of such principal, Prepayment Price and interest, if any, evidenced and represented by such Certificates.

*Unclaimed Moneys.* Anything contained therein to the contrary notwithstanding, any moneys held by the Fiscal Agent in trust for the payment and discharge of the principal, Prepayment Price or interest evidenced and represented by any of the Certificates which remain unclaimed for two (2) years after the date when the principal, Prepayment Price or interest evidenced and represented by such Certificates have become payable, shall at the Written Request of the State Treasurer be repaid by the Fiscal Agent to the State Treasurer as its property free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the State Treasurer for the payment of the principal, Prepayment Price or interest evidenced and represented by such Certificates.

**Miscellaneous**

*Execution of Documents by Owners*. Any declaration, request or other instrument which is permitted or required therein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys duly appointed in writing. The fact and date of the execution by any Owner or his or her attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he or she purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him or her the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Fiscal Agent may accept which it may deem sufficient. The ownership of any Certificates and the amount, payment date, number and date of owning the same may be proved by the records required to be kept by the Fiscal Agent pursuant to the provisions of Section 2.04 hereof.

*Binding Effect*. Any declaration, request, consent, direction or other instrument in writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by the State Treasurer or the Fiscal Agent in good faith and in accordance therewith.

*Acquisition of Certificates by State; Destruction of Certificates*. All Certificates acquired by the State, whether by purchase or gift or otherwise, shall be surrendered to the Fiscal Agent for cancellation. Whenever in the Trust Agreement provision is made for the cancellation by the Fiscal Agent of any Certificates, the Fiscal Agent shall, unless otherwise instructed by a Written Request of the State Treasurer, in lieu of such cancellation, destroy such Certificates and deliver a certificate of such destruction to the State Treasurer upon its request.

*Funds and Accounts.* Any fund required to be established and maintained herein by the Fiscal Agent or the State Treasurer may be established and maintained in the accounting records of the Fiscal Agent or the State Treasurer, respectively, either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof, and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with prudent accounting practice and with due regard for the protection of the security of the Certificates and the right of the Owners.

*Notices to Rating Agencies.* The Fiscal Agent shall provide to each Rating Agency then rating the Certificates prompt written notice of (i) the appointment of any successor Fiscal Agent or Paying Agent; (ii) any material amendment to the Trust Agreement or Lease; (iii) any prepayment of the Certificates; and (iv) any defeasance or discharge of the Certificates or the Trust Agreement.

**ASSIGNMENT**

*Assignment.* Under the Assignment, WFOA grants to the Fiscal Agent without recourse (i) all of its rights to the Site pursuant to the Site Lease and the Land Lease, (ii) all of its rights to receive the Base Rent Payments and any Additional Rent under and pursuant to the Lease; (ii) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Lease, the Land Lease and the Lease; (iii) all of its remaining right, title and interest in, to and under the Site Lease, the Land Lease and the Lease and in and to the Property and any rents or profits generated therefrom; and (iv) its right of access more particularly described in the Lease.

*Acceptance.* The Fiscal Agent accepts the foregoing grant, sale, assignment, transfer and conveyance for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rent Payments and Additional Rent shall be applied and all of such right, title and interest shall be exercised by the Fiscal Agent as provided in the Trust Agreement. The Fiscal Agent agrees to keep, perform and observe all of the terms, conditions, covenants and agreements under the Site Lease and Lease from and after the date thereof.

*Acknowledgement.* The Fiscal Agent and WFOA acknowledge and agree that (i) the foregoing grant, sale, assignment, transfer and conveyance by WFOA is intended to be a true sale of WFOA's right, title and interest in, to and under the Site Lease, the Land Lease, the Lease and in and to the Property; (ii) WFOA shall thereafter cease to have any rights, duties or obligations under the Site Lease, Lease or Land Lease or with respect to the Property; (iii) the Fiscal Agent shall thereafter have all the rights, duties and obligations of WFOA thereunder as if the Fiscal Agent had been the original party thereto; and (iv) every reference in the Site Lease, the Land Lease and the Lease to WFOA shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires.

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# APPENDIX C

## PROPOSED FORM OF CERTIFICATE COUNSEL OPINION

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FOSTER PEPPER & SHEFELMAN PLLC
ATTORNEYS AT LAW

[FORM OF APPROVING LEGAL OPINION]

State of Washington
c/o State Finance Committee
Olympia, Washington

Re: State of Washington Certificates of Participation, Office of the Secretary of State, Series 2002F (Eastern Washington Regional Archives Project), $12,870,000

We have acted as special counsel to the State of Washington in connection with the authorization and execution by the Washington State Office of the Secretary of State, Archives and Records Management Division (the "State Agency"), of the Site Lease dated as of December 1, 2002 (the "Site Lease"), between the State Agency and the Washington Finance Officers Association ("WFOA"), a Washington nonprofit corporation; the Financing Lease dated as of December 1, 2002 (the "Lease"), between WFOA and the State Agency; an Assignment dated as of December 1, 2002 (the "Assignment"), from WFOA to The Bank of New York in its capacity as fiscal agent of the State of Washington (the "Fiscal Agent"); and a Trust Agreement dated as of December 1, 2002 (the "Trust Agreement"), by and among the state of Washington, acting by and through the State Treasurer, WFOA and the Fiscal Agent. Capitalized terms used in this opinion that are not otherwise defined have the meanings given such terms in Appendix I to the Lease.

The Trust Agreement provides for the execution and delivery by the Fiscal Agent of Certificates of Participation, Office of the Secretary of State, Series 2002F (Eastern Washington Regional Archives Project), in the aggregate principal amount of $12,870,000 (the "Certificates"). The Certificates represent undivided proportionate ownership interests in the aggregate Base Rent Payments to be made by the State Agency under the Lease.

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PORTLAND
*Oregon*

SEATTLE
*Washington*

SPOKANE
*Washington*

The Certificates are fully registered and numbered in the manner and with additional designations as determined by the Fiscal Agent. The Certificates are dated December 1, 2002, are in the denomination of $5,000 each or any integral multiple thereof, and evidence and represent interest accruing from their date payable semiannually on each January 1 and July 1, commencing July 1, 2003, and evidence and represent aggregate Principal Components of Base Rent Payments payable under the Lease as provided in the Trust Agreement and the Certificates.

The Certificates are subject to optional and special mandatory prepayment prior to their scheduled payment dates as provided by the Trust Agreement.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material relating to the Certificates nor with respect to the validity or sufficiency of any undertaking for continuing disclosure. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the State Agency and the State Treasurer (collectively, the "State") are required to comply with certain requirements after the date of issuance of the Certificates in order to maintain the exclusion of the interest evidenced and represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the facilities financed or refinanced with Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Certificates. The State has covenanted to comply with those requirements, but if the State fails to comply with those requirements, interest evidenced and represented by the Certificates could become taxable retroactive to the date of issuance of the Certificates. We have not undertaken and do not undertake to monitor the State's compliance with such requirements.

Under the statutes, regulations, published rulings and court decisions existing on the date of this opinion and based on our review of such other documents and proceedings as we have deemed necessary, it is our opinion that:

1. The Site Lease and the Lease have been duly authorized, executed and delivered by the State Agency and WFOA, and constitute valid and legally binding obligations of the State Agency and WFOA, which are enforceable in accordance with their terms. The obligation of the State Agency to make Agency Rent payments is subject to appropriation and other limitations set forth in the Lease.

2. Assuming the parties (other than the State Treasurer and the State Agency) to the Assignment and the Trust Agreement (the "Agreements") have the authority and power to enter into, deliver and perform all of their respective rights, duties and obligation, if any, under the Agreements, and assuming the parties have duly authorized, executed and delivered the Agreements, the Agreements are valid, binding and enforceable obligations.

3. Assuming compliance by the State after the date of issuance of the Certificates with applicable requirements of the Code, the portion of each Base Rent Payment due under the Lease designated as and comprising interest ("Interest") received by the Owners of Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, while Interest also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, Interest received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, Interest received by certain S corporations may be subject to tax, and Interest received by foreign corporations with United States branches may be subject to a foreign branch profits tax.

4. The Certificates are <u>not</u> qualified tax-exempt obligations within the meaning of Section 265(b) of the Code for investment by financial institutions.

5. We express no opinion regarding any other federal tax consequences arising with respect to the ownership of the Certificates. Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

FOSTER PEPPER & SHEFELMAN PLLC

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# APPENDIX D

# EXCERPTS FROM THE STATE’S 2001 FINANCIAL STATEMENTS

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**Washington State Auditor**
**Brian Sonntag**

Legislative Building
PO Box 40021
Olympia, Washington 98504-0021

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**INDEPENDENT AUDITOR'S REPORT**

December 12, 2001

The Honorable Gary Locke
Governor, State of Washington
P.O. BOX 40002
0lympia, WA 98504

Dear Governor Locke:

We have audited the accompanying general-purpose financial statements of the state of Washington as of and for the fiscal year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the state's management. Our responsibility is to express an opinion on these financial statements based on our audit

We conducted our audit in accordance with, generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that out audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Washington as of June 30, 2001 and the results of its operations and cash flows of its proprietary funds, nonexpendable trust funds and discretely presented component units for the fiscal year then ended, in conformity with, generally accepted accounting principles.

As discussed in Note 3, the state adopted certain. new accounting pronouncements related to the timing of recognition of non-exchange transactions.

Our audit was made for the purpose of forming an opinion on the general-purpose Financial statements taken as a whole. The required supplementary information, combining financial statements and schedules listed in the table of contents, and the budgetary reports (MFS 1054) referenced in Note 1D are for purposes of additional analysis, and are not a required part of the general-purpose financial statements of the state of Washington. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

The other data included in this report, designated as the introductory and statistical sections in the table of contents, has not been audited by us and, accordingly, we express no opinion on such data.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

BS:KH:jc

# General Purpose Financial Statements

# **Combined Balance Sheet -** All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 2001 (expressed in thousands)

| | Governmental Fund Types | | | | Proprietary Fund Types | |
|---|---|---|---|---|---|---|
| | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service |
| **Assets and Other Debits** | | | | | | |
| **Assets:** | | | | | | |
| Cash and pooled investments | $ 1,590,915 | $ 1,625,689 | $ 93,957 | $ 229,177 | $ 210,883 | $ 95,693 |
| Investments | 148,199 | 813,792 | - | - | 69,371 | - |
| Taxes receivable (net of allowance) | 2,318,046 | 72,535 | - | - | 4,276 | - |
| Other receivables (net of allowance) | 286,223 | 200,611 | 5 | 20,616 | 619,081 | 3,533 |
| Due from other funds | 179,080 | 662,260 | 2,010 | 82,955 | 246,385 | 108,279 |
| Due from other governments | 1,276,919 | 185,702 | - | 4,527 | 32,350 | 21,996 |
| Inventories | 20,201 | 37,969 | - | - | 66,083 | 19,596 |
| Investments, noncurrent | - | - | - | - | 9,784,727 | 45,099 |
| Other nonfixed assets | - | - | - | - | 28,450 | 2,006 |
| Fixed assets (net of depreciation) | - | - | - | - | 1,078,072 | 318,044 |
| **Other Debits:** | | | | | | |
| Amount available in debt service funds | - | - | - | - | - | - |
| Amount to be provided for retirement of general long-term obligations | - | - | - | - | - | - |
| **Total Assets and Other Debits** | $ 5,819,583 | $ 3,598,558 | $ 95,972 | $ 337,275 | $ 12,139,678 | $ 614,246 |
| **Liabilities, Equity, and Other Credits** | | | | | | |
| **Liabilities:** | | | | | | |
| Accounts payable | $ 610,491 | $ 222,777 | $ - | $ 21,856 | $ 97,067 | $ 37,649 |
| Contracts and retainages payable | 19,950 | 30,444 | - | 31,008 | 19,457 | 22,358 |
| Accrued liabilities | 122,016 | 193,737 | 3,235 | 1,769 | 301,435 | 18,176 |
| Obligations under security lending agreements | 292,315 | 229,285 | 9,802 | 8,734 | 501,404 | 6,431 |
| Matured bonds payable | - | - | - | - | 26,236 | - |
| Due to other funds | 589,024 | 732,619 | - | 40,192 | 86,018 | 52,493 |
| Due to other governments | 77,172 | 72,072 | - | 100 | 3,139 | 170 |
| Deferred revenues | 1,235,045 | 199,368 | - | 10,169 | 42,119 | 687 |
| Claims and judgments payable, current | 20,842 | - | - | - | 1,317,130 | 78,349 |
| Claims and judgments payable, long-term | - | - | - | - | 12,929,183 | 233,535 |
| Bonds payable | - | - | - | - | 468,768 | - |
| Accrued retirement obligations | - | - | - | - | - | - |
| Other long-term obligations | - | - | - | - | 805,613 | 63,917 |
| **Total Liabilities** | 2,966,855 | 1,680,302 | 13,037 | 113,828 | 16,597,569 | 513,765 |
| **Equity and Other Credits:** | | | | | | |
| Contributed capital | - | - | - | - | 10,314 | 89,314 |
| Investment in general fixed assets | - | - | - | - | - | - |
| Retained earnings (deficit) | - | - | - | - | (4,468,205) | 11,167 |
| Fund Balances: | | | | | | |
| Reserved | 1,416,473 | 306,175 | - | 62,988 | - | - |
| Unreserved, designated | 871,327 | 189,925 | 82,935 | - | - | - |
| Unreserved, undesignated | 564,928 | 1,422,156 | - | 160,459 | - | - |
| **Total Equity and Other Credits** | 2,852,728 | 1,918,256 | 82,935 | 223,447 | (4,457,891) | 100,481 |
| **Total Liabilities, Equity, and Other Credits** | $ 5,819,583 | $ 3,598,558 | $ 95,972 | $ 337,275 | $ 12,139,678 | $ 614,246 |

The notes to the financial statements are an integral part of this statement.

| Fiduciary Fund Types | Account Groups | | Totals Primary Government (Memorandum Only) | | | Totals Reporting Entity (Memorandum Only) | |
|---|---|---|---|---|---|---|---|
| Trust and Agency | General Fixed Assets | General Long-Term Obligations | June 30, 2001 | June 30, 2000 | Component Units | June 30, 2001 | June 30, 2000 |
| $ 7,748,069 | $ - | $ - | $ 11,594,383 | $ 9,856,887 | $ 79,705 | $ 11,674,088 | $ 9,904,325 |
| 127 | - | - | 1,031,489 | 1,357,742 | 29,875 | 1,061,364 | 1,387,664 |
| - | - | - | 2,394,857 | 2,172,439 | - | 2,394,857 | 2,172,439 |
| 1,076,139 | - | - | 2,206,208 | 1,903,094 | 2,204 | 2,208,412 | 1,905,421 |
| 724,307 | - | - | 2,005,276 | 2,030,103 | - | 2,005,276 | 2,030,103 |
| 364,197 | - | - | 1,885,691 | 1,653,182 | - | 1,885,691 | 1,653,182 |
| 155 | - | - | 144,004 | 148,588 | - | 144,004 | 148,588 |
| 49,678,432 | - | - | 59,508,258 | 62,214,762 | 15,722 | 59,523,980 | 62,228,259 |
| 95,770 | - | - | 126,226 | 121,070 | 13,237 | 139,463 | 128,075 |
| - | 7,597,864 | - | 8,993,980 | 8,497,175 | 330,798 | 9,324,778 | 8,673,284 |
| - | - | 82,935 | 82,935 | 210,676 | - | 82,935 | 210,676 |
| - | - | 8,184,004 | 8,184,004 | 7,544,755 | - | 8,184,004 | 7,544,755 |
| $ 59,687,196 | $ 7,597,864 | $ 8,266,939 | $ 98,157,311 | $ 97,710,473 | $ 471,541 | $ 98,628,852 | $ 97,986,771 |
| | | | | | | | |
| $ 24,505 | $ - | $ - | $ 1,014,345 | $ 860,420 | $ 1,551 | $ 1,015,896 | $ 861,977 |
| 19,387 | - | - | 142,604 | 134,547 | 21,542 | 164,146 | 145,714 |
| 474,182 | - | - | 1,114,550 | 1,997,770 | 148 | 1,114,698 | 1,997,877 |
| 2,544,681 | - | - | 3,592,652 | 2,465,049 | - | 3,592,652 | 2,465,049 |
| - | - | - | 26,236 | 20,139 | - | 26,236 | 20,139 |
| 504,930 | - | - | 2,005,276 | 2,030,103 | - | 2,005,276 | 2,030,103 |
| 408,950 | - | - | 561,603 | 480,775 | - | 561,603 | 480,775 |
| 230,567 | - | - | 1,717,955 | 1,561,438 | 196 | 1,718,151 | 1,561,682 |
| 687 | - | - | 1,417,008 | 1,269,858 | - | 1,417,008 | 1,269,858 |
| - | - | 9,205 | 13,171,923 | 12,671,816 | - | 13,171,923 | 12,671,816 |
| - | - | 7,636,255 | 8,105,023 | 7,612,021 | - | 8,105,023 | 7,612,021 |
| - | - | 40,100 | 40,100 | 36,800 | - | 40,100 | 36,800 |
| 108,651 | - | 581,379 | 1,559,560 | 1,503,316 | 33,310 | 1,592,870 | 1,525,579 |
| 4,316,540 | - | 8,266,939 | 34,468,835 | 32,644,052 | 56,747 | 34,525,582 | 32,679,390 |
| | | | | | | | |
| - | - | - | 99,628 | 1,242,207 | 361,275 | 460,903 | 1,435,081 |
| - | 7,597,864 | - | 7,597,864 | 6,395,806 | - | 7,597,864 | 6,395,806 |
| - | - | - | (4,457,038) | (4,405,284) | 53,519 | (4,403,519) | (4,357,198) |
| 54,552,818 | - | - | 56,338,454 | 58,939,724 | - | 56,338,454 | 58,939,724 |
| 4,463 | - | - | 1,148,650 | 1,206,443 | - | 1,148,650 | 1,206,443 |
| 813,375 | - | - | 2,960,918 | 1,687,525 | - | 2,960,918 | 1,687,525 |
| 55,370,656 | 7,597,864 | - | 63,688,476 | 65,066,421 | 414,794 | 64,103,270 | 65,307,381 |
| $ 59,687,196 | $ 7,597,864 | $ 8,266,939 | $ 98,157,311 | $ 97,710,473 | $ 471,541 | $ 98,628,852 | $ 97,986,771 |

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# Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

## All Governmental Fund Types and Expendable Trust Funds

For the Fiscal Year Ended June 30, 2001 (expressed in thousands)

| | Governmental Fund Types | | | | Fiduciary Fund Type | Totals (Memorandum Only) | |
|---|---|---|---|---|---|---|---|
| | General | Special Revenue | Debt Service | Capital Projects | Expendable Trust | Year Ended June 30, 2001 | Year Ended June 30, 2000 |
| **Revenues:** | | | | | | | |
| Retail sales and use taxes | $ 5,912,004 | $ 22,543 | $ - | $ - | $ 20,011 | $ 5,954,558 | $ 5,827,895 |
| Business and occupation taxes | 1,970,054 | 48,273 | - | - | - | 2,018,327 | 1,829,503 |
| Property taxes | 1,366,714 | - | - | - | - | 1,366,714 | 1,332,837 |
| Excise taxes | 476,508 | 32,902 | - | - | - | 509,410 | 840,120 |
| Motor vehicle and fuel taxes | 2,865 | 733,281 | - | - | - | 736,146 | 755,428 |
| Other taxes | 947,163 | 395,392 | - | - | - | 1,342,555 | 1,237,697 |
| Licenses, permits, and fees | 123,896 | 490,336 | - | - | 2,340 | 616,572 | 598,035 |
| Timber sales | 62,406 | 72,905 | - | 5,723 | - | 141,034 | 178,514 |
| Other contracts and grants | 206,269 | 312,650 | - | 4,648 | 77,182 | 600,749 | 625,500 |
| Federal grants-in-aid | 4,633,596 | 1,121,694 | 164 | 2,079 | 393,942 | 6,151,475 | 5,664,520 |
| Charges for services | 39,757 | 888,487 | - | 23,300 | 207,065 | 1,158,609 | 1,044,934 |
| Unemployment compensation contributions | - | - | - | - | 947,061 | 947,061 | 939,475 |
| Investment gains (losses) | 145,800 | 128,341 | 3,598 | 2,824 | 1,432 | 281,995 | 496,967 |
| Miscellaneous revenue | 157,939 | 293,790 | 4,580 | 21,121 | 224,168 | 701,598 | 661,193 |
| **Total Revenues** | 16,044,971 | 4,540,594 | 8,342 | 59,695 | 1,873,201 | 22,526,803 | 22,032,618 |
| **Expenditures:** | | | | | | | |
| **Current:** | | | | | | | |
| General government | 673,692 | 147,076 | - | 60,638 | 230,373 | 1,111,779 | 882,036 |
| Human services | 7,653,107 | 718,924 | - | 7,376 | 1,105,981 | 9,485,388 | 8,665,828 |
| Natural resources and recreation | 368,367 | 249,249 | - | 19,563 | 6,081 | 643,260 | 555,328 |
| Transportation | 48,290 | 1,045,109 | - | 338 | 163,500 | 1,257,237 | 1,006,706 |
| Education | 6,608,269 | 1,796,933 | - | 64,578 | 312,200 | 8,781,980 | 8,243,754 |
| **Intergovernmental** | 57,068 | 264,016 | - | - | - | 321,084 | 645,855 |
| **Capital outlays** | 95,419 | 609,722 | - | 487,386 | 16,470 | 1,208,997 | 1,195,529 |
| **Debt service:** | | | | | | | |
| Principal | 15,756 | 10,518 | 373,529 | 29 | 45 | 399,877 | 388,282 |
| Interest | 2,733 | 8,020 | 382,373 | 1,722 | 7 | 394,855 | 359,188 |
| **Total Expenditures** | 15,522,701 | 4,849,567 | 755,902 | 641,630 | 1,834,657 | 23,604,457 | 21,942,506 |
| **Excess of Revenues Over (Under) Expenditures** | 522,270 | (308,973) | (747,560) | (581,935) | 38,544 | (1,077,654) | 90,112 |
| **Other Financing Sources (Uses):** | | | | | | | |
| Bond sale proceeds | - | 242,263 | - | 578,187 | - | 820,450 | 778,020 |
| Proceeds of refunding bonds | - | - | 565,367 | - | - | 565,367 | 100,649 |
| Payment to refunded bond escrow agent | - | - | (565,451) | - | - | (565,451) | (100,649) |
| Note proceeds | 5,679 | 17,642 | - | - | - | 23,321 | 25,871 |
| Operating transfers in | 432,077 | 959,112 | 779,306 | 115,698 | 94,171 | 2,380,364 | 2,037,402 |
| Operating transfers out | (1,043,990) | (657,611) | (159,403) | (45,537) | (228,490) | (2,135,031) | (1,907,667) |
| Capital lease acquisitions | - | 10,364 | - | - | - | 10,364 | - |
| **Total Other Financing Sources (Uses)** | (606,234) | 571,770 | 619,819 | 648,348 | (134,319) | 1,099,384 | 933,626 |
| **Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses** | (83,964) | 262,797 | (127,741) | 66,413 | (95,775) | 21,730 | 1,023,738 |
| **Fund Balances:** | | | | | | | |
| Fund balances as restated, July 1 | 2,936,692 | 1,647,046 | 210,676 | 157,034 | 4,772,207 | 9,723,655 | 8,289,321 |
| Residual equity transfers in | - | 8,789 | - | - | - | 8,789 | 4,048 |
| Residual equity transfers out | - | (376) | - | - | (248) | (624) | (3,510) |
| **Fund Balances, June 30** | $ 2,852,728 | $ 1,918,256 | $ 82,935 | $ 223,447 | $ 4,676,184 | $ 9,753,550 | $ 9,313,597 |

The notes to the financial statements are an integral part of this statement.

# Combined Statement of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

## All Governmental Fund Types

For the Biennium Ended June 30, 2001 (expressed in thousands)

| | General Fund | | | Special Revenue Funds | | |
|---|---|---|---|---|---|---|
| | Approved Budget 1999-01 Biennium | Actual For 1999-01 Biennium | Variance Favorable (Unfavorable) | Approved Budget 1999-01 Biennium | Actual For 1999-01 Biennium | Variance Favorable (Unfavorable) |
| **Revenues:** | | | | | | |
| Taxes | $ 20,867,587 | $ 20,787,643 | $ (79,944) | $ 1,974,481 | $ 1,963,291 | $ (11,190) |
| Licenses, permits, and fees | 245,540 | 255,090 | 9,550 | 848,405 | 862,852 | 14,447 |
| Other contracts and grants | 453,915 | 447,103 | (6,812) | 16,688 | 19,502 | 2,814 |
| Timber sales | 128,193 | 135,782 | 7,589 | 148,050 | 149,886 | 1,836 |
| Federal grants-in-aid | 8,684,615 | 8,161,625 | (522,990) | 1,054,305 | 927,689 | (126,616) |
| Charges for services | 73,832 | 76,036 | 2,204 | 160,708 | 162,271 | 1,563 |
| Interest income | 139,240 | 226,384 | 87,144 | 69,465 | 97,344 | 27,879 |
| Miscellaneous revenue | 313,267 | 366,909 | 53,642 | 418,778 | 427,115 | 8,337 |
| **Total Revenues** | 30,906,189 | 30,456,572 | (449,617) | 4,690,880 | 4,609,950 | (80,930) |
| **Expenditures:** | | | | | | |
| **Current:** | | | | | | |
| General government | 2,551,276 | 2,550,912 | 364 | 259,777 | 215,656 | 44,121 |
| Human services | 14,174,329 | 14,073,184 | 101,145 | 1,385,698 | 1,346,727 | 38,971 |
| Natural resources and recreation | 680,672 | 643,752 | 36,920 | 287,132 | 238,418 | 48,714 |
| Transportation | 99,151 | 96,396 | 2,755 | 1,177,244 | 1,138,750 | 38,494 |
| Education | 12,918,818 | 12,835,438 | 83,380 | 80,124 | 79,456 | 668 |
| **Capital outlays** | 731,354 | 319,034 | 412,320 | 2,862,266 | 2,167,703 | 694,563 |
| **Total Expenditures** | 31,155,600 | 30,518,716 | 636,884 | 6,052,241 | 5,186,710 | 865,531 |
| **Excess of Revenues Over (Under) Expenditures** | (249,411) | (62,144) | 187,267 | (1,361,361) | (576,760) | 784,601 |
| **Other Financing Sources (Uses):** | | | | | | |
| Bond sale proceeds | - | - | - | 778,064 | 272,097 | (505,967) |
| Proceeds of refunding bonds | - | - | - | - | - | - |
| Payment to refunded bond escrow agent | - | - | - | - | - | - |
| Operating transfers in | 580,850 | 867,697 | 286,847 | 770,658 | 1,213,627 | 442,969 |
| Operating transfers out | (220,720) | (765,640) | (544,920) | (785,497) | (776,845) | 8,652 |
| **Total Other Financing Sources (Uses)** | 360,130 | 102,057 | (258,073) | 763,225 | 708,879 | (54,346) |
| **Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses** | $ 110,719 | $ 39,913 | $ (70,806) | $ (598,136) | $ 132,119 | $ 730,255 |

The notes to the financial statements are an integral part of this statement.

| Debt Service Funds | | | Capital Projects Funds | | | Totals (Memorandum Only) | | |
|---|---|---|---|---|---|---|---|---|
| Approved Budget 1999-01 Biennium | Actual For 1999-01 Biennium | Variance Favorable (Unfavorable) | Approved Budget 1999-01 Biennium | Actual For 1999-01 Biennium | Variance Favorable (Unfavorable) | Approved Budget 1999-01 Biennium | Actual For 1999-01 Biennium | Variance Favorable (Unfavorable) |
| $ - | $ - | $ - | $ - | $ - | $ - | $ 22,842,068 | $ 22,750,934 | $ (91,134) |
| - | - | - | - | - | - | 1,093,945 | 1,117,942 | 23,997 |
| - | - | - | - | - | - | 470,603 | 466,605 | (3,998) |
| - | - | - | 13,382 | 13,405 | 23 | 289,625 | 299,073 | 9,448 |
| - | 329 | 329 | - | - | - | 9,738,920 | 9,089,643 | (649,277) |
| - | - | - | 4,481 | 45,320 | 40,839 | 239,021 | 283,627 | 44,606 |
| 3,549 | 3,631 | 82 | 1,941 | 4,243 | 2,302 | 214,195 | 331,602 | 117,407 |
| - | 51 | 51 | 11,300 | 11,576 | 276 | 743,345 | 805,651 | 62,306 |
| 3,549 | 4,011 | 462 | 31,104 | 74,544 | 43,440 | 35,631,722 | 35,145,077 | (486,645) |
| 365,949 | 363,058 | 2,891 | 8,812 | 5,109 | 3,703 | 3,185,814 | 3,134,735 | 51,079 |
| - | - | - | - | - | - | 15,560,027 | 15,419,911 | 140,116 |
| - | - | - | - | - | - | 967,804 | 882,170 | 85,634 |
| - | - | - | - | - | - | 1,276,395 | 1,235,146 | 41,249 |
| - | - | - | - | - | - | 12,998,942 | 12,914,894 | 84,048 |
| - | - | - | 1,729,979 | 1,197,855 | 532,124 | 5,323,599 | 3,684,592 | 1,639,007 |
| 365,949 | 363,058 | 2,891 | 1,738,791 | 1,202,964 | 535,827 | 39,312,581 | 37,271,448 | 2,041,133 |
| (362,400) | (359,047) | 3,353 | (1,707,687) | (1,128,420) | 579,267 | (3,680,859) | (2,126,371) | 1,554,488 |
| - | - | - | 1,085,229 | 1,129,434 | 44,205 | 1,863,293 | 1,401,531 | (461,762) |
| - | 666,015 | 666,015 | - | - | - | - | 666,015 | 666,015 |
| - | (666,100) | (666,100) | - | - | - | - | (666,100) | (666,100) |
| 394,574 | 372,851 | (21,723) | 25,051 | 146,292 | 121,241 | 1,771,133 | 2,600,467 | 829,334 |
| (10,952) | (13,414) | (2,462) | (56,952) | (53,879) | 3,073 | (1,074,121) | (1,609,778) | (535,657) |
| 383,622 | 359,352 | (24,270) | 1,053,328 | 1,221,847 | 168,519 | 2,560,305 | 2,392,135 | (168,170) |
| $ 21,222 | $ 305 | $ (20,917) | $ (654,359) | $ 93,427 | $ 747,786 | $ (1,120,554) | $ 265,764 | $ 1,386,318 |

# Combined Statement of Revenues, Expenses, and Changes in Equity - All Proprietary Fund Types, Nonexpendable Trust Funds, and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 2001 (expressed in thousands)

| | Proprietary Fund Types | | Fiduciary Fund Type |
|---|---|---|---|
| | Enterprise | Internal Service | Nonexpendable Trust |
| **Operating Revenues:** | | | |
| Sales | $ 484,700 | $ 132,920 | $ - |
| Less: Cost of goods sold | 356,174 | 115,800 | - |
| Gross profit | 128,526 | 17,120 | - |
| Charges for services | 726,733 | 536,522 | - |
| Earnings on investments | 548,199 | 4,258 | 27,170 |
| Insurance premiums | 1,084,613 | 778,206 | - |
| Lottery ticket proceeds | 483,904 | - | - |
| Miscellaneous revenue | 118,398 | 28,216 | 54,862 |
| **Total Operating Revenues** | 3,090,373 | 1,364,322 | 82,032 |
| **Operating Expenses:** | | | |
| Salaries and wages | 502,389 | 206,975 | - |
| Employee benefits | 103,503 | 47,992 | - |
| Personal services | 49,866 | 18,909 | - |
| Goods and services | 467,483 | 250,695 | - |
| Travel | 17,252 | 4,274 | - |
| Insurance premiums and claims | 1,881,808 | 824,364 | - |
| Lottery prize payments | 288,509 | - | - |
| Depreciation and amortization | 40,392 | 50,086 | - |
| Miscellaneous expenses | 49,440 | 30,234 | - |
| **Total Operating Expenses** | 3,400,642 | 1,433,529 | - |
| **Operating Income (Loss)** | (310,269) | (69,207) | 82,032 |
| **Nonoperating Revenues (Expenses):** | | | |
| Other revenues (expenses) | 90,546 | (1,073) | 581 |
| Earnings (losses) on investments | 191,814 | 2,631 | - |
| Interest expense | (65,407) | (2,814) | - |
| Distributions to other governments | (29,090) | - | - |
| **Total Nonoperating Revenues (Expenses)** | 187,863 | (1,256) | 581 |
| **Income (Loss) Before Operating Transfers** | (122,406) | (70,463) | 82,613 |
| **Operating Transfers:** | | | |
| Operating transfers in | 394,989 | 69,529 | 28,536 |
| Operating transfers out | (568,383) | (72,999) | (97,005) |
| **Net Operating Transfers In (Out)** | (173,394) | (3,470) | (68,469) |
| **Net Income (Loss)** | (295,800) | (73,933) | 14,144 |
| **Equity:** | | | |
| Equity as restated, July 1 | (3,313,031) | 170,390 | 1,677,068 |
| Residual equity transfers in (out) | 298,598 | (1,055) | (1) |
| Contributions of capital | - | 5,079 | - |
| Return of contributed capital | (1,147,658) | - | - |
| **Equity, June 30** | $ (4,457,891) | $ 100,481 | $ 1,691,211 |

The notes to the financial statements are an integral part of this statement.

| Totals Primary Government (Memorandum Only) Year Ended June 30, 2001 | Year Ended June 30, 2000 | Component Units | Totals Reporting Entity (Memorandum Only) Year Ended June 30, 2001 | Year Ended June 30, 2000 |
|---|---|---|---|---|
| $ 617,620 | $ 592,706 | $ - | $ 617,620 | $ 592,706 |
| 471,974 | 439,736 | - | 471,974 | 439,736 |
| 145,646 | 152,970 | - | 145,646 | 152,970 |
| 1,263,255 | 1,269,108 | 8,971 | 1,272,226 | 1,277,605 |
| 579,627 | 725,711 | - | 579,627 | 725,711 |
| 1,862,819 | 1,545,147 | - | 1,862,819 | 1,545,147 |
| 483,904 | 452,954 | - | 483,904 | 452,954 |
| 201,476 | 203,508 | - | 201,476 | 203,508 |
| 4,536,727 | 4,349,398 | 8,971 | 4,545,698 | 4,357,895 |
| 709,364 | 729,558 | 3,764 | 713,128 | 732,682 |
| 151,495 | 157,012 | 852 | 152,347 | 157,803 |
| 68,775 | 40,374 | 423 | 69,198 | 40,875 |
| 718,178 | 748,774 | 3,535 | 721,713 | 751,631 |
| 21,526 | 21,088 | 19 | 21,545 | 21,102 |
| 2,706,172 | 3,010,451 | - | 2,706,172 | 3,010,451 |
| 288,509 | 289,608 | - | 288,509 | 289,608 |
| 90,478 | 118,686 | 2,388 | 92,866 | 120,805 |
| 79,674 | 76,118 | 383 | 80,057 | 76,708 |
| 4,834,171 | 5,191,669 | 11,364 | 4,845,535 | 5,201,665 |
| (297,444) | (842,271) | (2,393) | (299,837) | (843,770) |
| 90,054 | 100,000 | 1,500 | 91,554 | 100,000 |
| 194,445 | (86,319) | 6,107 | 200,552 | (83,237) |
| (68,221) | (69,786) | (344) | (68,565) | (70,091) |
| (29,090) | (27,342) | - | (29,090) | (27,342) |
| 187,188 | (83,447) | 7,263 | 194,451 | (80,670) |
| (110,256) | (925,718) | 4,870 | (105,386) | (924,440) |
| 493,054 | 521,680 | - | 493,054 | 521,680 |
| (738,387) | (651,415) | - | (738,387) | (651,415) |
| (245,333) | (129,735) | - | (245,333) | (129,735) |
| (355,589) | (1,055,453) | 4,870 | (350,719) | (1,054,175) |
| (1,465,573) | (512,560) | 240,960 | (1,224,613) | (407,033) |
| 297,542 | (538) | - | 297,542 | (538) |
| 5,079 | 82,563 | 168,964 | 174,043 | 216,718 |
| (1,147,658) | (21) | - | (1,147,658) | (21) |
| $ (2,666,199) | $ (1,486,009) | $ 414,794 | $ (2,251,405) | $ (1,245,049) |

# Combined Statement of Cash Flows

## All Proprietary Fund Types, Nonexpendable Trust Funds, and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 2001 (expressed in thousands)

| | Proprietary Fund Types | | Fiduciary Fund Type | Totals Primary Government (Memorandum Only) | |
|---|---|---|---|---|---|
| | Enterprise | Internal Service | Nonexpendable Trust | Year Ended June 30, 2001 | Year Ended June 30, 2000 |
| **Cash Flows from Operating Activities:** | | | | | |
| Operating Income (Loss) | $ (310,269) | $ (69,207) | $ 82,032 | $ (297,444) | $ (842,271) |
| **Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:** | | | | | |
| Depreciation | 40,392 | 50,086 | - | 90,478 | 118,686 |
| Interest revenue reported as operating | (548,199) | (4,258) | (27,170) | (579,627) | (725,711) |
| Other revenues | 3,712 | 439 | 708 | 4,859 | 8,552 |
| Other expenses | (10,517) | (1,214) | (127) | (11,858) | (3,509) |
| **Changes in Assets: Decrease (Increase)** | | | | | |
| Receivables (net of allowance) | 4,156 | 368 | 4,177 | 8,701 | (74,262) |
| Due from other funds | 47,952 | 25,652 | 5,662 | 79,266 | (374,142) |
| Due from other governments | (2,736) | (4,451) | (21) | (7,208) | (13,669) |
| Inventories | 16,695 | (665) | - | 16,030 | (11,487) |
| Prepaid expenses | 535 | (27) | - | 508 | 2,341 |
| Other nonfixed assets | (1,153) | - | 4,444 | 3,291 | 359 |
| **Changes in Liabilities: Increase (Decrease)** | | | | | |
| Accounts payable | 21,676 | 540 | - | 22,216 | (5,489) |
| Contracts and retainages payable | 5,803 | 11,442 | (747) | 16,498 | (6,882) |
| Accrued liabilities | (258,647) | 9,643 | (2,146) | (251,150) | 280,411 |
| Due to other funds | (16,297) | (14,054) | 8,067 | (22,284) | 93,233 |
| Due to other governments | 1,914 | (102) | - | 1,812 | (71) |
| Deferred revenues | (2,300) | (2,243) | (3) | (4,546) | 3,602 |
| Claims and judgments payable | 619,022 | 28,491 | - | 647,513 | 1,209,869 |
| Other long-term obligations | (25,993) | (677) | (201) | (26,871) | 30,927 |
| **Net Cash or Cash Equivalents Provided by (Used in) Operating Activities** | (414,254) | 29,763 | 74,675 | (309,816) | (309,513) |
| **Cash Flows from Noncapital Financing Activities:** | | | | | |
| Distributions to other governments | (29,090) | - | - | (29,090) | (27,342) |
| Taxes and license fees collected | 98,788 | - | - | 98,788 | 81,905 |
| Operating transfers in | 394,989 | 69,529 | 28,536 | 493,054 | 521,680 |
| Operating transfers out | (568,382) | (72,999) | (97,005) | (738,386) | (651,415) |
| Payments for interest | - | - | - | - | - |
| Proceeds from noncapital long-term financing | 12,817 | - | - | 12,817 | 5,956 |
| Payment of noncapital long-term obligations | (7,673) | - | - | (7,673) | (1,027) |
| Equity restatement | - | - | - | - | 3,167 |
| Fund equity transfers in | 298,696 | - | - | 298,696 | 15,971 |
| Fund equity transfers out | (1,147,756) | (1,055) | (1) | (1,148,812) | (16,509) |
| **Net Cash or Cash Equivalents Provided by (Used in) Noncapital Financing Activities** | (947,611) | (4,525) | (68,470) | (1,020,606) | (67,614) |
| **Cash Flows from Capital and Related Financing Activities:** | | | | | |
| Payments for interest | (26,829) | (2,814) | - | (29,643) | (31,054) |
| Acquisitions of fixed assets | (182,930) | (82,752) | - | (265,682) | (213,549) |
| Proceeds from sale of fixed assets | 872,556 | 20,785 | - | 893,341 | 25,049 |
| Proceeds from long-term capital financing | 128,071 | 71 | - | 128,142 | 226,233 |
| Retirement of long-term bonds payable | (85,215) | - | - | (85,215) | (21,850) |
| Payment of other long-term obligations | (4,703) | (7,014) | - | (11,717) | (163,419) |
| Contributions for capital acquisitions | - | - | - | - | - |
| **Net Cash or Cash Equivalents Provided by (Used in) Capital and Related Financing Activities** | 700,950 | (71,724) | - | 629,226 | (178,590) |
| **Cash Flows from Investing Activities:** | | | | | |
| Receipt of interest | 624,882 | 6,157 | 131,744 | 762,783 | 706,998 |
| Proceeds from sale of investment securities | 4,333,078 | 37,759 | 231,065 | 4,601,902 | 4,278,371 |
| Purchases of investment securities | (4,333,755) | (42,848) | (349,095) | (4,725,698) | (4,743,774) |
| **Net Cash Provided by (Used in) Investing Activities** | 624,205 | 1,068 | 13,714 | 638,987 | 241,595 |
| **Net Increase (Decrease) in Cash and Pooled Investments** | (36,710) | (45,418) | 19,919 | (62,209) | (314,122) |
| Cash and Pooled Investments, July 1 | 247,593 | 141,111 | 3,882 | 392,586 | 706,708 |
| **Cash and Pooled Investments, June 30** | $ 210,883 | $ 95,693 | $ 23,801 | $ 330,377 | $ 392,586 |

The notes to the financial statements are an integral part of this statement.

Continued

| | **Totals Reporting Entity (Memorandum Only)** | |
|---|---|---|
| Component Units | Year Ended June 30, 2001 | Year Ended June 30, 2000 |
| $ (2,393) | $ (299,837) | $ (843,770) |
| | | |
| 2,387 | 92,865 | 120,805 |
| - | (579,627) | (725,711) |
| 1,500 | 6,359 | 8,552 |
| - | (11,858) | (3,509) |
| | | |
| 143 | 8,844 | (73,787) |
| - | 79,266 | (374,142) |
| - | (7,208) | (13,669) |
| - | 16,030 | (11,487) |
| - | 508 | 2,341 |
| (6,252) | (2,961) | (1,754) |
| | | |
| (6) | 22,210 | (2,707) |
| - | 16,498 | (6,882) |
| 10,418 | (240,732) | 280,498 |
| - | (22,284) | 93,233 |
| - | 1,812 | (71) |
| (48) | (4,594) | 3,637 |
| - | 647,513 | 1,209,869 |
| 11,047 | (15,824) | 33,153 |
| 16,796 | (293,020) | (305,401) |
| | | |
| - | (29,090) | (27,342) |
| - | 98,788 | 81,905 |
| - | 493,054 | 521,680 |
| - | (738,386) | (651,415) |
| (344) | (344) | (305) |
| - | 12,817 | 5,956 |
| - | (7,673) | (1,027) |
| - | - | 3,167 |
| - | 298,696 | 16,031 |
| (37) | (1,148,849) | (16,509) |
| (381) | (1,020,987) | (67,859) |
| | | |
| - | (29,643) | (31,054) |
| (157,077) | (422,759) | (313,600) |
| - | 893,341 | 25,049 |
| - | 128,142 | 233,883 |
| - | (85,215) | (21,850) |
| - | (11,717) | (163,419) |
| 169,000 | 169,000 | 134,095 |
| 11,923 | 641,149 | (136,896) |
| | | |
| 6,107 | 768,890 | 709,915 |
| 1,247 | 4,603,149 | 4,279,552 |
| (3,425) | (4,729,123) | (4,760,411) |
| 3,929 | 642,916 | 229,056 |
| 32,267 | (29,942) | (281,100) |
| 47,438 | 440,024 | 721,124 |
| $ 79,705 | $ 410,082 | $ 440,024 |

# Combined Statement of Cash Flows

## All Proprietary Fund Types, Nonexpendable Trust Funds, and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 2001 (expressed in thousands)

| | Proprietary Fund Types | | Fiduciary Fund Type | **Totals Primary Government (Memorandum Only)** | |
|---|---|---|---|---|---|
| | Enterprise | Internal Service | Nonexpendable Trust | Year Ended June 30, 2001 | Year Ended June 30, 2000 |
| **Noncash Investing, Capital, and Financing Activities:** | | | | | |
| Acquisition of capital assets with capital leases and COPs | $ - | $ 1,475 | $ - | $ 1,475 | $ 1,778 |
| Capital lease and COP liabilities incurred in acquiring capital assets | - | (1,475) | - | (1,475) | (1,778) |
| Contributions of capital assets | - | 5,008 | - | 5,008 | 82,600 |
| Return of contributed assets | - | - | - | - | (21) |
| Noncash portion of prior period adjustments | 20,436 | - | - | 20,436 | (5,621) |
| Amortization of long-term lottery prize liability | 38,557 | - | - | 38,557 | (38,622) |
| Amoritization of gains (losses) on bond refunding | (22) | - | - | (22) | - |
| Increase (decrease) in fair value of investments | 115,349 | 732 | (104,574) | 11,507 | (67,606) |

**Cash and Pooled Investments in Fiduciary Fund Types on the Combined Balance Sheet include:**

| | |
|---|---|
| Expendable Trust Funds | $ 2,365,889 |
| Nonexpendable Trust Funds | 23,801 |
| Pension and Investment Trust Funds | 5,013,466 |
| Agency Funds | 344,913 |
| Total | $ 7,748,069 |

The notes to the financial statements are an integral part of this statement.

Concluded

| Component Units | Totals Reporting Entity (Memorandum Only) Year Ended June 30, 2001 | Year Ended June 30, 2000 |
|---|---|---|
| $ - | $ 1,475 | $ 1,778 |
| - | (1,475) | (1,778) |
| - | 5,008 | 82,600 |
| - | - | (21) |
| - | 20,436 | (5,621) |
| - | 38,557 | (38,622) |
| - | (22) | - |
| - | 11,507 | (67,606) |

# Statement of Changes in Net Assets

## Pension and Investment Trust Funds

For the Fiscal Year Ended June 30, 2001 (expressed in thousands)

| | Public Employees' Plan 1 | Public Employees' Plan 2 | Teachers' Plan 1 | Teachers' Plan 2/3 Defined Benefit | Teachers' Plan 3 Defined Contribution | School Employees' Plan 2/3 Defined Benefit | School Employees' Plan 3 Defined Contribution |
|---|---|---|---|---|---|---|---|
| **Additions:** | | | | | | | |
| Contributions: | | | | | | | |
| Employers | $ 181,711 | $ 115,039 | $ 141,351 | $ 69,579 | $ - | $ 19,939 | $ - |
| Members | 72,571 | 117,445 | 56,988 | 11,242 | 125,300 | 14,217 | 13,727 |
| State | - | - | - | - | - | - | - |
| Pool participants | - | - | - | - | - | - | - |
| Total Contributions | 254,282 | 232,484 | 198,339 | 80,821 | 125,300 | 34,156 | 13,727 |
| Investment Income: | | | | | | | |
| Net appreciation (depreciation) in fair value | (940,735) | (873,428) | (807,773) | (281,115) | (164,380) | (192,465) | 369 |
| Interest and dividends | 314,586 | 310,127 | 271,045 | 96,385 | 30,026 | 44,574 | 914 |
| Less: Investment expenses | (35,926) | (36,023) | (30,902) | (11,670) | (2,103) | (4,304) | (68) |
| Net Investment Income | (662,075) | (599,324) | (567,630) | (196,400) | (136,457) | (152,195) | 1,215 |
| Transfers from other pension plans | 382 | 322 | 4 | 9 | 3,455 | 1,424,526 | 478,031 |
| Other additions | - | - | - | - | - | - | - |
| **Total Additions** | (407,411) | (366,518) | (369,287) | (115,570) | (7,702) | 1,306,487 | 492,973 |
| **Deductions:** | | | | | | | |
| Pension benefits | 669,877 | 50,798 | 632,674 | 6,810 | - | 285 | - |
| Pension refunds | 8,466 | 48,311 | 2,762 | 3,871 | 20,078 | 1,397 | 2,168 |
| Transfers to other pension plans | 3 | 1,903,135 | - | 3,289 | 172 | 320 | 18 |
| Administrative expenses | 597 | 423 | 234 | 1,322 | 175 | - | 315 |
| Distributions to pool participants | - | - | - | - | - | - | - |
| **Total Deductions** | 678,943 | 2,002,667 | 635,670 | 15,292 | 20,425 | 2,002 | 2,501 |
| **Net Increase (Decrease)** | (1,086,354) | (2,369,185) | (1,004,957) | (130,862) | (28,127) | 1,304,485 | 490,472 |
| **Net Assets Held in Trust for Pension Benefits and Investment Pool Participants, as restated July 1** | 11,300,894 | 12,529,376 | 9,802,832 | 3,396,307 | 1,660,177 | - | - |
| **Net Assets Held in Trust for Pension Benefits and Investment Pool Participants, June 30** | $ 10,214,540 | $ 10,160,191 | $ 8,797,875 | $ 3,265,445 | $ 1,632,050 | $ 1,304,485 | $ 490,472 |

The notes to the financial statements are an integral part of this statement.

| LEOFF Plan 1 | LEOFF Plan 2 | Washington State Patrol Retirement System | Judicial Retirement System | Judicial Retirement Account | Judges' Retirement Fund | Volunteer Fire Fighters' Retirement System | Local Gov't Investment Pool | Totals for the Year Ended June 30, 2001 | June 30, 2000 |
|---|---|---|---|---|---|---|---|---|---|
| $ 130 | $ 31,450 | $ - | $ 257 | $ 482 | $ 8 | $ 761 | $ - | $ 560,707 | $ 594,350 |
| 46 | 52,986 | 1,819 | 257 | 414 | 8 | 156 | - | 467,176 | 420,233 |
| - | 20,919 | - | 7,000 | - | 750 | 3,270 | - | 31,939 | 27,543 |
| - | - | - | - | - | - | - | 11,109,314 | 11,109,314 | 9,720,201 |
| 176 | 105,355 | 1,819 | 7,514 | 896 | 766 | 4,187 | 11,109,314 | 12,169,136 | 10,762,327 |
| (460,833) | (207,748) | (60,311) | 9 | (1,285) | 85 | (10,638) | - | (4,000,248) | 4,459,353 |
| 154,051 | 69,405 | 20,125 | 579 | 829 | 298 | 3,607 | 237,569 | 1,554,120 | 1,299,415 |
| (17,589) | (7,922) | (2,302) | (12) | (1) | (48) | (416) | (10,347) | (159,633) | (109,838) |
| (324,371) | (146,265) | (42,488) | 576 | (457) | 335 | (7,447) | 227,222 | (2,605,761) | 5,648,930 |
| 57 | 2 | 226 | - | - | - | - | - | 1,907,014 | 79,015 |
| - | - | - | - | - | - | 92 | 5 | 97 | 9 |
| (324,138) | (40,908) | (40,443) | 8,090 | 439 | 1,101 | (3,168) | 11,336,541 | 11,470,486 | 16,490,281 |
| 238,938 | 1,727 | 20,359 | 7,719 | 347 | 662 | 6,933 | - | 1,637,129 | 1,501,823 |
| 11 | 8,343 | 88 | - | - | - | 17 | - | 95,512 | 103,025 |
| 6 | 71 | - | - | - | - | - | - | 1,907,014 | 79,015 |
| 168 | 7 | 7 | - | - | - | 21 | - | 3,269 | 3,838 |
| - | - | - | - | - | - | - | 9,667,328 | 9,667,328 | 9,834,668 |
| 239,123 | 10,148 | 20,454 | 7,719 | 347 | 662 | 6,971 | 9,667,328 | 13,310,252 | 11,522,369 |
| (563,261) | (51,056) | (60,897) | 371 | 92 | 439 | (10,139) | 1,669,213 | (1,839,766) | 4,967,912 |
| 5,549,423 | 2,410,292 | 719,754 | 9,421 | 9,274 | 4,519 | 129,405 | 3,321,353 | 50,843,027 | 45,875,115 |
| $ 4,986,162 | $ 2,359,236 | $ 658,857 | $ 9,792 | $ 9,366 | $ 4,958 | $ 119,266 | $ 4,990,566 | $ 49,003,261 | $ 50,843,027 |

# Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2001

## Index to the Notes to the Combined Financial Statements

# Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB) which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For proprietary fund accounting and reporting, the state applies applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. The more significant of the state's accounting policies follow.

## A. Reporting Entity

In evaluating how to define the state of Washington, for financial reporting purposes, management has considered: all funds, organizations, institutions, agencies, departments, and offices that are legally part of the state (the primary government); organizations for which the state is financially accountable; and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete.

Financial accountability is manifest when the primary government appoints a voting majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government.

Based on this criteria, the following are included in the financial statements of the primary government:

STATE AGENCIES - Except as otherwise described herein, all state elected offices, departments, agencies, commissions, boards, committees, authorities, and councils (agencies) and all funds and account groups of the state are included in the primary government. Executives of these agencies are either elected, directly appointed by the Governor, appointed by a board which is appointed by the Governor, or appointed by a board which is in part appointed by the Governor.

Additionally, a small number of board positions are established by statute or independently elected. The state Legislature creates these agencies, assigns their programs, approves operational funding, and requires financial accountability. The Legislature also authorizes all bond issuances for capital construction projects for the benefit of state agencies. The legal liability for these bonds and the ownership of agency assets reside with the state.

COLLEGES AND UNIVERSITIES - The governing boards of the five state universities, the state college, and the 33 state community and technical colleges are appointed by the Governor. Each college's governing board appoints a president to function as chief administrator. The state Legislature approves budgets and budget amendments for the colleges' appropriated funds, which include the state's General Fund as well as certain capital projects funds. The state Treasurer issues general obligation debt for major campus construction projects. However, the colleges are authorized to issue revenue bonds for construction of facilities for certain revenue generating activities such as housing, dining, and parking. These revenue bonds are payable solely from and secured by fees and revenues derived from the operation of constructed facilities; the legal liability for the bonds and the ownership of the college assets reside with the state. Colleges do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's Office. Since the colleges are legally part of the state, their financial operations, including their blended component units, are reported in the primary government financial statements using the fund structure prescribed by GASB, not discretely reported according to the fund structure of the American Institute of Certified Public Accountants college and university reporting model.

RETIREMENT SYSTEMS - The state of Washington, through the Department of Retirement Systems, administers seven retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Judicial Retirement System, and the Judges Retirement Fund. The director of the Department of Retirement Systems is appointed by the Governor.

There are two additional retirement systems administered outside of the Department of Retirement Systems. The Volunteer Fire Fighters' Relief and Pension Fund is administered through the Board for Volunteer Fire Fighters, which is appointed by the Governor. The Judicial Retirement Account is administered through the Administrator for the Courts under the direction of the Board for Judicial Administration.

The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The participants of the public retirement systems together with the state provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

All nine of the aforementioned retirement systems are included in the primary government's financial statements.

COMPONENT UNITS - Discrete component units are entities which are legally separate from the state but which are financially accountable to the state. The following are discretely presented in the financial statements of the state in the component units column:

The WASHINGTON STATE HOUSING FINANCE COMMISSION, the WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY, the WASHINGTON HEALTH CARE FACILITIES AUTHORITY, and the WASHINGTON ECONOMIC DEVELOPMENT FINANCE AUTHORITY (financing authorities) were created by the Legislature in a way that specifically prevents them from causing the state to be liable or responsible for their acts and obligations, including, but not limited to, any obligation to pay principal and interest on financing authority bonds. The financing authorities are reported as discrete component units of the state government solely for accounting purposes. The financing authorities cannot obligate the state, either legally or morally, and the state has not assumed any obligation of, or with respect to, the financing authorities.

Financial reports of these financing authorities may be obtained from each authority at the following addresses:

Washington Health Care Facilities Authority
410 - 11th Avenue SE, Suite 201
PO Box 40935
Olympia, WA 98504-0935

Washington State Housing Finance Commission
Washington Higher Education Facilities Authority
Washington Economic Development Finance Authority
1000 - 2nd Avenue, Suite 2700
Seattle, WA 98104-1046

The WASHINGTON STATE PUBLIC STADIUM AUTHORITY (PSA) was created by the Legislature to acquire, construct, own, and operate a stadium, exhibition center, and parking garage. The state has budget approval authority over a majority of PSA's funding sources. Further, conditioned upon certain events occurring, the state is authorized to issue and has issued general obligation bonds to participate in the funding of project construction costs. Under statute, the state's share of the total project cost is capped at $300 million. Project costs in excess of $300 million are the responsibility of the project's private partner, First & Goal, Inc. The bonds will be repaid through new state lottery games, a state sales tax credit, extension of the local hotel/motel tax, and parking and admissions taxes at the new facility. Financial reports of the PSA may be obtained at the following address:

Washington State Public Stadium Authority
401 Second Avenue South, Suite 520
Seattle, WA 98104-0280

### B. Basis of Presentation - Fund Accounting

The state uses 476 accounts which have been administratively combined into 55 funds and two account groups. The state uses these funds and account groups to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." State transactions are recorded in the fund types and account groups described below:

Governmental Funds

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term obligations (debt service funds). The General Fund is used to account for activities of the general government not accounted for in some other fund.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the governmental unit (internal service funds).

Fiduciary Funds

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the governmental unit. When these assets are held under the terms of a formal trust agreement, either an expendable trust fund, a nonexpendable trust fund, or a pension/investment trust fund is used. The terms "expendable" and "nonexpendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds are generally used to account for assets that the government holds on behalf of others as their agent.

Account Groups

The General Fixed Assets Account Group accounts for all fixed assets of the state other than those accounted for in proprietary and similar trust funds. The General Long-Term Obligations Account Group accounts for the unmatured principal of the state's general obligation bonds and other long-term obligations of governmental and expendable trust funds.

### C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary, nonexpendable trust, and pension/investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in equity (i.e., total net assets). Equity in proprietary funds is segregated into contributed capital and retained earnings components. Equity for nonexpendable trust and pension/investment trust funds is shown as reserved for nonexpendable trust corpus and reserved for pension benefits/local governments, respectively.

The modified accrual basis of accounting is used by all governmental, expendable trust, and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably estimated. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, motor fuel taxes, unemployment compensation contributions, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collected within 60 days. Revenue for timber cutting contracts is accrued when the timber is harvested. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure driven grant agreements are recognized when the qualifying expenditures are made. All other accrued revenue sources are determined to be available if collectible within 12 months.

Property taxes are levied in December for the following calendar year. The first half year collections are due by April 30, and the second half year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half year collections are recognized as revenue, if collected within 60 days of the fiscal year end. The second half year collections are recognized as receivables offset by deferred revenue. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are recognized when the related fund liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include unmatured interest on general long-term obligations which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

All proprietary, nonexpendable trust, and pension/investment trust funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The state reports deferred revenues on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and the "available" criteria for revenue recognition in the current period. Deferred revenues also arise when resources are received by the state before it has a legal claim to them, such as when grant monies are received prior to the incurrence of qualifying expenditures.

### D. General Budgetary Policies and Procedures

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying "Combined Statement of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual - All Governmental Fund Types" ("Governmental Budgetary Statement") is not presented at the legal level of budgetary control. This is due to the large number of appropriated fund/accounts and appropriations within agencies that would make such a presentation in the accompanying financial statements extremely cumbersome. Section 2400.112 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 1999-2001 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at the fund/account, agency, and appropriation level are presented in Report MFS1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43123, Olympia, Washington 98504-3123.

Legislative appropriations are strict legal limits on expenditures/expenses, and overexpenditures are prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised only at the beginning of the second year of the biennium and must be initiated by the Governor. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary statements displayed in the accompanying financial statements are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year end are reported as reservations of fund balance.

Budgetary Reporting versus GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying "Governmental Budgetary Statement" is different in certain respects from the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types" ("Governmental Operating Statement"). In the accompanying "Governmental Budgetary Statement," budget and actual expenditures are reported only for appropriated fund/accounts and activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the accompanying "Governmental Operating Statement," all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain activities are excluded from the "Governmental Budgetary Statement" because they are not appropriated. These activities include: funds designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, federal surplus food commodities, electronic food stamp benefits, capital leases, note proceeds, and resources collected and distributed to other governments. Further, certain operating transfers are appropriated as expenditures. These transfers are reported as expenditures in the "Governmental Budgetary Statement" and as operating transfers in the "Governmental Operating Statement." The main factors contributing to the difference in the amount "Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses" are: note and loan activity as explained in Note 2, "Budgetary Accounting, Reporting, and Compliance," and nonappropriated governmental fund activities.

## E. Cash and Pooled Investments

Investments of surplus or pooled cash balances are reported on the accompanying Combined Balance Sheet and Combined Statement of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of funds with surplus pooled balances are not reduced for these investments. For reporting purposes, pooled cash is stated at fair value or amortized cost, which approximates fair value. For the purposes of the Combined Statement of Cash Flows, the state considers cash and short term, highly liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates to be cash equivalents.

The method of accounting for noncurrent investments varies depending upon the fund classification. Investments in the state's Local Government Investment Pool (LGIP), an external investment pool operated in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, are reported at amortized cost. The Office of the State Treasurer prepares a stand-alone financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TDD (360) 902-8963.

All other noncurrent investments are reported at fair value. Fair values are determined using closing market prices at year-end for marketable securities and other reasonable methods for investments where market values are not readily available.

## F. Receivables

Receivables in the state's governmental and fiduciary funds consist primarily of tax and federal revenues. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria (refer to Note 1.C) have been met.

## G. Inventories

Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported for financial statement purposes if the annual balance on hand within an agency is estimated to exceed $25,000 in value. Consumable inventories are generally valued using the first-in, first-out method. All merchandise inventories are valued and considered reportable for financial statement purposes. Merchandise inventories are generally valued using the first-in, first-out method. Donated consumable inventories are recorded at fair market value. Food stamps on hand are recorded at face value.

Governmental and expendable trust fund inventories are valued at cost and are recorded using the consumption method. Inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $33 thousand in food stamps and $5.6 million in federally donated consumable inventories, both of which are offset by deferred revenues because they do not constitute a fund resource until issued or consumed.

Proprietary fund inventories are valued at the lower of cost or market and are expensed when used or sold.

### H. Fixed Assets

Except as noted below, all fixed assets with a unit cost of $5,000 or greater are capitalized and reported in the accompanying financial statements. Fixed assets acquired by capital leases with a net present value or fair market value, whichever is less, of $10,000 or more are capitalized and also included in these financial statements.

All purchased fixed assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Fixed asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Donated fixed assets are valued at their estimated fair value, plus all appropriate ancillary costs, on the date of donation. When the fair market value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are increased by the construction. In proprietary and similar trust funds, interest costs (if material) incurred during the period of construction are capitalized.

Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings (including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets) that are immovable and are of value only to the state are not capitalized. Streets, sidewalks, lighting systems, and similar assets located on college and university campuses, which predominately benefit college and university activities, are capitalized.

Fixed assets in governmental and expendable trust funds are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and related assets (including construction projects not completed at the end of the accounting period) with the following characteristics are reported in the General Fixed Assets Account Group:

- Acquired for the production of general government services, not for the production of services that are sold.
- Have a life expectancy of more than one year.
- Have a unit cost of $5,000 or greater.

Depreciation expense of general fixed assets is not recorded in the activity statements of governmental and expendable trust funds. Accumulated depreciation is recorded in the General Fixed Assets Account Group and is included in the financial statements as a “Memo Only” entry. Depreciation is calculated using the straight-line method with estimated useful lives of 50 years for buildings, and three to 50 years for furnishings and equipment, other improvements, and miscellaneous fixed assets. General fixed assets are removed from the General Fixed Assets Account Group at the time of disposal.

Fixed assets used in proprietary and similar trust funds are accounted for in the fund in which they are utilized. Depreciation is computed using the straight-line method. Buildings are depreciated using estimated useful lives extending to 50 years. Furnishings and equipment, other improvements, and miscellaneous fixed assets are depreciated using estimated useful lives of three to 50 years. The cost and related accumulated depreciation of fixed assets retired from service or disposed of, are removed from the accounting records.

### I. Compensated Absences

<u>Annual Leave</u>
State employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee’s anniversary date. It is the state’s policy to liquidate unpaid annual leave at June 30 from future resources rather than currently expendable available financial resources. Accordingly, governmental and expendable trust funds recognize annual leave when it is paid. A long-term liability of $232.6 million for the accumulated annual leave and related payroll taxes and benefits in governmental and expendable trust funds has been recorded in the General Long-Term Obligations Account Group as of June 30, 2001. Proprietary and similar trust funds recognize the expense and accrued liability when the annual leave is earned. An accrued liability for accumulated annual leave, including related payroll taxes and benefits, has been recorded in enterprise funds for $25.5 million and $16.3 million in internal service funds as of June 30, 2001.

Sick Leave

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave. It is the state's policy to liquidate unpaid sick leave at June 30 from future resources rather than currently expendable available expendable financial resources. Accordingly, governmental and expendable trust funds recognize sick leave when it is paid. The state has recorded an estimated sick leave buyout liability, including related payroll taxes, for governmental and expendable trust funds of $111.5 million at June 30, 2001 in the General Long-Term Obligations Account Group. Proprietary and similar trust funds recognize the expense and accrue a liability for estimated sick leave buyout as sick leave is earned. As of June 30, 2001, a liability for estimated sick leave buyout, including related payroll taxes, has been accrued in enterprise funds for $8.1 million and in internal service funds for $6.2 million.

## J. Long-Term Obligations

Long-term obligations expected to be financed from resources to be received in the future by governmental and expendable trust funds are reported in the General Long-Term Obligations Account Group, not in the individual funds. Long-term obligations to be financed from proprietary and similar trust funds are recorded in the applicable funds rather than in the General Long-Term Obligations Account Group.

## K. Fund Equity

Fund equity represents the difference between fund assets and fund liabilities. In governmental and fiduciary funds, fund equity is called "Fund Balance." Reserved fund balance represents that portion of fund balance that is: (1) not available for appropriation or expenditure, and/or (2) legally segregated for a specific future use. Unreserved, designated fund balance indicates tentative plans for future use of financial resources. Unreserved, undesignated fund balance represents the amount available for appropriation.

For proprietary funds, equity attributable to accumulated earnings is referred to as "Retained Earnings." Equity provided by contributions from other funds and capital grants is classified as "Contributed Capital."

## L. Insurance Activities

Workers' Compensation

The state of Washington's workers' compensation program is established by Title 51 RCW. The statute requires all employers to insure payment of benefits for job related injuries and diseases through the Workers' Compensation Fund or through self-insurance. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

The Workers' Compensation Fund, an enterprise fund, is used to account for the workers' compensation program which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

Premiums are based on individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past experience. In addition to its regular premium plans, the Workers' Compensation Fund offers a retrospective premium rating plan under which premiums are adjusted annually for up to four years following the plan year based on individual employers' loss experience. Initial adjustments to the standard premiums are paid to or collected from the employers approximately ten months after the end of each plan year.

The Workers' Compensation Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Risk Management
Washington State operates a risk management liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for employee bonds and to limit the exposure to catastrophic losses. Otherwise, the risk management liability program services all claims against the state for injuries and property damage to third parties. The majority of state funds and agencies participate in the risk management liability program in proportion to the anticipated exposure to liability losses.

State Employees' Insurance
The state's health care benefits program is accounted for in the State Employees' Insurance Fund, an internal service fund, and is funded through contributions from employees and a per capita amount determined annually by the Legislature and allocated to state agencies. The allocation represents a composite rate that funds all programs except for the portion contributed by employees. The Health Care Authority, as administrator of the health care benefits program, collects this monthly "premium" from agencies for each active employee enrolled in the program. The program also covers employees on extensions of coverage and retirees who self-pay their insurance premiums.

The state self-insures or internally manages the risk of loss for the Uniform Medical Plan. Thirty-two percent of eligible subscribers were enrolled in this health care plan in Fiscal Year 2001. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator. Considerations in calculating liabilities include frequency of claims, administrative costs, industry inflation trends, advances in medical technology, and other social and economic factors. Liabilities include an amount for claims incurred but not reported.

### M. Interfund Activities

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

### N. Totals (Memorandum Only) Columns

Totals columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis.

The data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Furthermore, this data is not comparable to a consolidation as interfund eliminations have not been made in the aggregation of this data.

### O. Future Changes in Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*, and Statement No. 38 *Certain Financial Statement Note Disclosures*. These new accounting and reporting standards will impact the state's revenue and expenditure recognition and assets, liabilities, and fund equity reporting. The new standards will also require reformatting of the financial statements and the restating of beginning balances. These new GASB standards will be implemented in Fiscal Year 2002.

# Note 2 - Budgetary Accounting, Reporting, and Compliance

## A. Biennial Budget

Budgeted amounts reported on the accompanying "Combined Statement of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual - All Governmental Fund Types" ("Governmental Budgetary Statement") include approved appropriations for the 1999-2001 Biennium.

The following schedule details the approved budget by fund type (expressed in thousands):

| | General | Special Revenue | Debt Service | Capital Projects | **Totals** (Memo Only) |
|---|---|---|---|---|---|
| **Legislative Appropriations:** | | | | | |
| Original | $ 30,107,841 | $ 6,348,746 | $ 383,622 | $ 1,697,675 | $ 38,537,884 |
| Supplemental | 1,047,759 | (296,505) | (17,673) | 41,116 | 774,697 |
| **Total Legislative Appropriations** | $ 31,155,600 | $ 6,052,241 | $ 365,949 | $ 1,738,791 | $ 39,312,581 |

## B. Reconciliation of Governmental Budgetary Statement to Governmental Operating Statement

The following is a reconciliation for Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses for all governmental fund types between the "Governmental Budgetary Statement" and the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types" ("Governmental Operating Statement").

Certain transactions appear on the "Governmental Operating Statement" and not on the "Governmental Budgetary Statement," or conversely, appear on the "Governmental Budgetary Statement" and not on the "Governmental Operating Statement." Also, certain transactions appear differently on the "Governmental Operating Statement" and the "Governmental Budgetary Statement." These transactions are reconciled as detailed below:

BASIS ADJUSTMENTS - Loan disbursements/receipts are budgeted items and appear on the "Governmental Budgetary Statement." However, they do not appear on the "Governmental Operating Statement" because they represent increases/decreases of loan receivables and appropriately appear on the Combined Balance Sheet. Certain operating transfers are budgeted as expenditures to allow the exercise of budgetary control. These operating transfers are reflected as expenditures on the "Governmental Budgetary Statement" in accordance with approved appropriations, but they are reflected as operating transfers on the "Governmental Operating Statement."

ENTITY ADJUSTMENTS - Certain funds designated as nonappropriated by the Legislature, resources collected and distributed to other governments, federal surplus food commodities, food stamp benefits, and notes and capital lease proceeds/acquisitions are not appropriated and do not appear on the "Governmental Budgetary Statement." Portions of the difference in the Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses between the accompanying "Governmental Budgetary Statement" and the "Governmental Operating Statement" can be caused by the funds designated as nonappropriated by the Legislature, and by expending note proceeds received in prior fiscal periods. The other entity adjustments do not cause differences in those statements because offsetting revenues and expenditures are excluded from the "Governmental Budgetary Statement" in each case.

The following schedule details the reconciling items between the "Governmental Budgetary Statement" and the "Governmental Operating Statement" by governmental fund type (expressed in thousands):

| | General | Special Revenue | Debt Service | Capital Projects | **Totals** (Memo Only) |
|---|---|---|---|---|---|
| **Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (Budgetary Basis) for the Biennium Ended June 30, 2001** | $ 39,913 | $ 132,119 | $ 305 | $ 93,427 | $ 265,764 |
| **Less: For the Fiscal Year ended June 30, 2000** | 231,323 | (126,852) | 119,487 | 43,589 | 267,547 |
| **For the Fiscal Year Ended June 30, 2001** | (191,410) | 258,971 | (119,182) | 49,838 | (1,783) |
| **Basis Adjustments:** | | | | | |
| Loan disbursements | 115,831 | 411 | - | 22 | 116,264 |
| Loan receipts | (46,585) | (580) | - | (42) | (47,207) |
| Current expenditures | 582,960 | 78,748 | (567,443) | 14,000 | 108,265 |
| Operating transfers (net) | (582,960) | (78,748) | 567,443 | (14,000) | (108,265) |
| **Entity Adjustments:** | | | | | |
| Revenues of nonappropriated funds | 227,461 | 1,877,290 | (8,559) | 61,336 | 2,157,528 |
| Expenditures of nonappropriated funds | (189,261) | (1,878,434) | - | (44,906) | (2,112,601) |
| Revenues collected for other governments | 94,554 | 264,016 | - | - | 358,570 |
| Revenues distributed to other governments | (94,554) | (264,016) | - | - | (358,570) |
| Revenues attributable to federal surplus food commodities and food stamps | 283,083 | - | - | - | 283,083 |
| Noncash commodities and food stamps issued | (283,083) | - | - | - | (283,083) |
| Capital leases proceeds | - | 10,364 | - | - | 10,364 |
| Note proceeds | 5,679 | 17,642 | - | | 23,321 |
| Noncash capital acquisitions | (5,679) | (22,867) | - | 165 | (28,381) |
| **Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis) for the Fiscal Year Ended June 30, 2001** | $ (83,964) | $ 262,797 | $ (127,741) | $ 66,413 | $ 117,505 |

### C. Budget Overexpenditures

Appropriations are legal limitations on agency expenditures subject to available fund balances. The biennial appropriation bill authorizes bond debt service expenditures and retirement contributions in an amount sufficient to meet financing needs. There are no overexpenditures of appropriations at the legal level of control for the 1999-2001 Biennium.

## Note 3 - Accounting and Reporting Changes

Fund equity at July 1, 2000, has been restated as follows (expressed in thousands):

| | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust | **Totals** (Memo Only) |
|---|---|---|---|---|---|---|---|---|
| **Fund equity at June 30, 2000, as previously reported** | $ 2,936,692 | $ 1,619,804 | $ 210,676 | $ 157,034 | $ (3,333,467) | $ 170,390 | $ 56,909,486 | $ 58,670,615 |
| Accounting policy | - | 27,242 | - | - | - | - | 276,753 | 303,995 |
| Prior period adjustment | - | - | - | - | 20,436 | - | 106,063 | 126,499 |
| **Fund equity as restated, July 1, 2000** | $ 2,936,692 | $ 1,647,046 | $ 210,676 | $ 157,034 | $ (3,313,031) | $ 170,390 | $ 57,292,302 | $ 59,101,109 |

### Changes Affecting Equity

Accounting policy – Effective for Fiscal Year 2001 reporting, the state implemented Statement No. 33 of the Governmental Accounting Standard Board (GASB), *Recipient Reporting for Certain Shared Nonexchange Revenues*, and GASB Statement No. 36, *an amendment of GASB Statement No. 33*. These statements address the timing of recognition of nonexchange transactions. In accordance with these statements, the state is recognizing revenue for unemployment compensation contributions in an Expendable Trust fund, and motor fuel taxes in a Special Revenue fund.

Prior period adjustment - The Higher Education Coordinating Board reported an adjustment to record the appropriate value of installment contract receivables related to the Guaranteed Education Tuition Program in an Enterprise fund. The Department of Retirement Systems reported an adjustment to the beginning fair value of investments in the Deferred Compensation Program which is an Expendable Trust fund.

## Note 4 - Deposits and Investments

As of June 30, 2001, the carrying amount of Washington's cash and investments was $72 billion. Total cash and investments at fiscal year-end amounted to $72.4 billion, including cash from outstanding checks and warrants. Of this amount, cash on hand amounted to $8.8 million, deposits with financial institutions amounted to $674.4 million, and deposits in the federal Unemployment Trust Fund amounted to $1.9 billion. The remaining $69.8 billion represented the total carrying amount of investments.

Deposits by type, at June 30, 2001, are as follows (expressed in thousands):

| Type of Deposit | Carrying Amount | Bank Balance | Insured/ Collateralized | Uninsured/ Uncollateralized |
|---|---|---|---|---|
| Demand deposits | $ 76,409 | $ 175,549 | $ 166,525 | $ 9,024 |
| Certificates of deposit | 421,015 | 421,015 | 417,836 | 3,179 |
| Cash with fiscal and escrow agents | 77,846 | 77,844 | 54,202 | 23,642 |
| **Total Deposits** | $ 575,270 | $ 674,408 | $ 638,563 | $ 35,845 |

DEPOSITS - At fiscal year end, 94.7 percent of the state's deposits with financial institutions were either insured or collateralized, the remaining 5.3 percent were uninsured/uncollateralized. The state's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Collateral protection is provided by the Washington Public Deposit Protection Commission (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

INVESTMENTS - The State Investment Board and the Office of the State Treasurer manage approximately 92 percent of the state's investing activity. Management responsibilities and investment instruments as authorized by statute follow.

STATE INVESTMENT BOARD (SIB) - Statute designates SIB as having investment management responsibility for pension funds, the Workers' Compensation Fund, permanent funds (established at statehood), and other specific funds. Pursuant to statute (Chapter 43.33A RCW) and SIB policy, SIB is authorized and invests in the following: Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. government and agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; nondollar bonds; investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions.

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real estate investments has been estimated based on independent appraisals. Venture capital and leveraged buy-out investments are determined by independent investment advisors based on analysis of the audited financial statements of the underlying partnerships. The pension funds have no investments of any commercial or industrial organization whose market value exceeds 5 percent or more of each plan's net assets.

The SIB is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options, to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. SIB mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the SIB authority to invest in derivatives, international active equity managers may make limited investment in financial futures, forward contracts, or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2001. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of the use, and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2001, the only derivative securities held directly by SIB were collateralized mortgage obligations of $3.4 billion.

State law and Board policy permit the SIB to participate in securities lending transactions. The Board has entered into agreements with State Street Bank and Trust to act as agents for the SIB in securities lending transactions. As State Street Bank and Trust is the custodian bank for the SIB, it is a counterparty to securities lending transactions. Therefore, all cash collateral reinvested by State Street Bank and Trust is reflected as Category 3 for custodial credit risk disclosure purposes.

Securities were loaned and collateralized by the SIB's agents with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, where securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2001 approximated $2.6 and $2.5 billion, respectively.

During Fiscal Year 2001, securities lending transactions could be terminated on demand by either the SIB or the borrower. The average term of overall loans was 39 days.

Cash collateral was invested by the SIB's agents in securities issued or guaranteed by the U.S. government, the SIB's short-term investment pool (average weighted maturity of 212 days), or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Noncash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were loaned with the agreement that they would be returned in the future for exchange of the collateral. State Street Bank and Trust indemnified the SIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Bank and Trust Company's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2001, there were no significant violations of legal or contractual provisions or failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the SIB incurred no losses during Fiscal Year 2001 resulting from a default by either the borrowers or the securities lending agents.

The SIB has entered into a number of agreements that commit the state, upon request, to make additional investment purchases up to a stated amount. As of June 30, 2001, the state had the following unfunded investment commitments (expressed in thousands):

| | |
|---|---|
| Private equity partnerships | $ 4,614,146 |
| Real estate | 428,734 |

OFFICE OF THE STATE TREASURER (OST) - The OST operates the state's Cash Management Account for investing cash in excess of daily requirements. Statute authorizes the OST to buy and sell the following types of instruments: U.S. government and agency securities, banker's acceptances, commercial paper, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above.

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST, which has contracted with a lending agent to lend securities, earns a fee for this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the OST's custodian. At June 30, 2001, all OST securities on loan were collateralized by cash and other securities and are classified in the schedule of custodial credit risk according to the category for the collateral received on the securities lent. On June 30, 2001, the average life of both the loans and the investment of cash received as collateral was two days.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2001, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST. Furthermore, the contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by the OST's custodian in the state's name. Collateral for mortgage-backed repurchase agreements with a maturity date longer than seven days will be priced at 105 percent of fair value, plus accrued interest. Collateralized Mortgage Obligations (CMO) used as collateral for repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.

State law also permits the OST to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities pledged as collateral by the OST underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the OST or to provide equal value in securities or cash, the OST would suffer an economic loss equal to the differences between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The OST investment policy limits the amount of reverse repurchase agreements to 30 percent of the total portfolio. At fiscal year end, the 30 percent limitation of the policy applies to a combination of securities lending and reverse repurchase agreements. During the fiscal year, the maturities of reverse repurchase agreements were matched to anticipated cash flows adequate to liquidate the agreements. On June 30, 2001, there were no obligations under reverse repurchase agreements.

UNIVERSITY OF WASHINGTON – The University's investment policies permit it to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The University's custodian lends securities of the type on loan at year-end for collateral in the form of cash or other securities. U.S. securities are loaned verses collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest. At year-end, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. The contract with the custodian requires it to indemnify the University if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the University for income distributions by the securities' issuers while the securities are on loan. Either the University or the borrower can terminate all securities loans on demand, although the average term of overall loans is ten days. Cash collateral is invested in a short-term investment pool, which had an average weighted maturity of 30 days as of June 30, 2001. The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loans made by other entities that use the custodian's pool, which the University cannot determine. Non-cash collateral cannot be sold unless the borrower defaults.

INVESTMENT ACTIVITY - The state's investments are categorized below per GASB Statement No. 3 to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured, registered, or held by the state or its agent in the state's name. Category 2 includes uninsured and unregistered investments which are held by the counterparties' trust departments or agents in the state's name. Category 3 includes uninsured and unregistered investments held by counterparties, or their trust departments or agents, but not in the state's name.

Investments at June 30, 2001, by investment type, are listed below (expressed in thousands):

| Investment Type | Carrying Amount by GASB Categories 1 | 2 | 3 | Carrying Amount | Fair Value |
|---|---|---|---|---|---|
| Corporate bonds | $ 10,660,729 | $ 461 | $ 75,851 | $ 10,737,041 | $ 10,737,141 |
| Corporate stocks | 2,547,666 | 623 | - | 2,548,289 | 2,548,303 |
| U.S. government securities | 4,059,206 | 1,533 | 5,083 | 4,065,822 | 4,065,827 |
| Government securities - foreign | 170,125 | - | - | 170,125 | 170,125 |
| Collateralized mortgage obligations | 3,411,520 | - | - | 3,411,520 | 3,411,525 |
| Repurchase agreements | 1,472,680 | 4,560 | 450,000 | 1,927,240 | 1,927,240 |
| Zero coupon bonds | 1,289 | - | - | 1,289 | 1,289 |
| Asset backed securities | 543,763 | - | 207,053 | 750,816 | 750,816 |
| Commercial paper | 15,308 | - | 104,722 | 120,030 | 120,030 |
| Discount notes | 4,914,508 | - | - | 4,914,508 | 4,914,508 |
| Bankers' acceptances | 7,365 | - | - | 7,365 | 7,365 |
| Municipal bonds | 44,238 | - | - | 44,238 | 44,252 |
| Variable rate notes | - | - | 1,073,068 | 1,073,068 | 1,073,068 |
| Negotiable certificates of deposit | - | - | 614,576 | 614,576 | 614,576 |
| Other | 34,622 | - | 8,359 | 42,981 | 42,981 |
| | $ 27,883,019 | $ 7,177 | $ 2,538,712 | 30,428,908 | 30,429,046 |
| Mutual funds | | | | 24,347,781 | 24,347,781 |
| Mortgages | | | | 1,136,262 | 1,136,262 |
| Real estate | | | | 3,700,456 | 3,700,456 |
| Private equity | | | | 5,913,976 | 5,913,976 |
| Guaranteed investment contracts | | | | 421,749 | 421,749 |
| Investments held by broker-dealers under securities lending programs: | | | | | |
| U.S. government securities | | | | 2,877,706 | 2,877,706 |
| Corporate securities | | | | 987,517 | 987,517 |
| **Total Investments** | | | | $ 69,814,355 | $ 69,814,493 |

# Note 5 - Receivables and Deferred Revenues

## A. Taxes Receivable

Taxes receivable at June 30, 2001, consisted of the following (expressed in thousands):

| Taxes Receivable | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust & Agency | Totals (Memo Only) |
|---|---|---|---|---|---|---|---|---|
| Property | $ 746,284 | $ - | $ - | $ - | $ - | $ - | $ - | $ 746,284 |
| Sales | 1,159,951 | 12,549 | - | - | - | - | - | 1,172,500 |
| Business and occupation | 383,374 | - | - | - | - | - | - | 383,374 |
| Excise | - | - | - | - | - | - | - | - |
| Estate | 13,435 | - | - | - | - | - | - | 13,435 |
| Fuel | - | 60,008 | - | - | - | - | - | 60,008 |
| Other | 44,446 | 27 | - | - | 4,276 | - | - | 48,749 |
| Subtotals | 2,347,490 | 72,584 | - | - | 4,276 | - | - | 2,424,350 |
| Less: Allowance for uncollectible receivables | 29,444 | 49 | - | - | - | - | - | 29,493 |
| **Total Taxes Receivable** | $ 2,318,046 | $ 72,535 | $ - | $ - | $ 4,276 | $ - | $ - | $ 2,394,857 |

## B. Other Receivables

Other receivables at June 30, 2001, consisted of the following (expressed in thousands):

| Other Receivables | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust & Agency | Totals (Memo Only) |
|---|---|---|---|---|---|---|---|---|
| Public assistance receivables | $ 1,207,032 | $ - | $ - | $ - | $ - | $ - | $ 5,601 | $ 1,212,633 |
| Accounts receivable | 19,288 | 97,322 | 13 | 6,451 | 546,865 | 3,474 | 14,898 | 688,311 |
| Interest receivable | 5,793 | 10,283 | - | 23 | 118,115 | 136 | 270,085 | 404,435 |
| Loans receivable | 9,404 | 2,016 | - | 1,182 | 2 | - | 332,196 | 344,800 |
| Long-term contracts | 73,153 | 44,953 | - | 10,101 | - | - | - | 128,207 |
| Miscellaneous receivables | 5,135 | 62,394 | - | 2,867 | 43,272 | 209 | 528,711 | 642,588 |
| Subtotals | 1,319,805 | 216,968 | 13 | 20,624 | 708,254 | 3,819 | 1,151,491 | 3,420,974 |
| Less: Allowance for uncollected receivables | 1,033,582 | 16,357 | 8 | 8 | 89,173 | 286 | 75,352 | 1,214,766 |
| **Total Other Receivables** | $ 286,223 | $ 200,611 | $ 5 | $ 20,616 | $ 619,081 | $ 3,533 | $ 1,076,139 | $ 2,206,208 |

Note: Public assistance receivables mainly represent amounts owed the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and have a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.

## C. Deferred Revenues

Deferred revenues at June 30, 2001, consisted of the following (expressed in thousands):

| Deferred Revenues | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust | Totals (Memo Only) |
|---|---|---|---|---|---|---|---|---|
| Property taxes | $ 720,884 | $ - | $ - | $ - | $ - | $ - | $ - | $ 720,884 |
| Other taxes | 364,703 | - | - | - | 592 | - | - | 365,295 |
| Timber sales | 71,347 | 44,953 | - | 10,101 | - | - | - | 126,401 |
| Charges for services | 2,521 | 25,446 | - | - | 29,609 | 656 | 12,007 | 70,239 |
| Food stamps | 33 | - | - | - | - | - | - | 33 |
| Donable goods | 5,551 | - | - | - | 22 | - | - | 5,573 |
| Miscellaneous | 70,006 | 128,969 | - | 68 | 11,896 | 31 | 218,560 | 429,530 |
| **Total Deferred Revenues** | $ 1,235,045 | $ 199,368 | $ - | $ 10,169 | $ 42,119 | $ 687 | $ 230,567 | $ 1,717,955 |

## Note 6 - Interfund Balances

The following balances at June 30, 2001, represent due from/to balances among all funds and state agencies (expressed in thousands):

| Fund Type | Fund | Due From | Totals | Due To | Totals |
|---|---|---|---|---|---|
| Governmental Funds: | | | | | |
| General | General Fund | | $ 179,080 | | $ 589,024 |
| Special Revenue | Motor Vehicle Fund | $ 46,181 | | $ 58,576 | |
| | Transportation Fund | 7,938 | | 7,441 | |
| | State Wildlife Fund | 4,052 | | 5,072 | |
| | Common School Construction Fund | 21,505 | | 2,000 | |
| | Central Administrative and Regulatory Fund | 14,271 | | 12,094 | |
| | Human Services Fund | 22,466 | | 9,657 | |
| | Natural Resources Fund | 20,952 | | 21,400 | |
| | Higher Education Fund | 524,895 | 662,260 | 616,379 | 732,619 |
| Debt Service | General Obligation Bond Fund | 1,774 | | - | |
| | Transportation Bond Fund | 236 | 2,010 | - | - |
| Capital Projects | State Facilities Fund | 37,322 | | 37,495 | |
| | Higher Education Facilities Fund | 45,633 | 82,955 | 2,697 | 40,192 |
| Total Governmental Funds | | | 926,305 | | 1,361,835 |
| Proprietary Funds: | | | | | |
| Enterprise | Liquor Fund | 7,937 | | 7,952 | |
| | Workers' Compensation Fund | 1,978 | | 7,175 | |
| | Convention and Trade Fund | 614 | | 156 | |
| | Lottery Fund | 7,550 | | 1,998 | |
| | Institutional Fund | 4,027 | | 1,101 | |
| | Student Services Fund | 223,351 | | 32,489 | |
| | Other Activities Fund | 928 | 246,385 | 35,147 | 86,018 |
| Internal Service | Central Services Fund | 20,672 | | 4,447 | |
| | Equipment Revolving Fund | 5,632 | | 1,031 | |
| | Data Processing Revolving Fund | 15,415 | | 1,576 | |
| | Printing Services Fund | 5,413 | | 371 | |
| | State Employees' Insurance Fund | 23,521 | | 22,910 | |
| | Risk Management Fund | 1,003 | | 6,730 | |
| | Higher Education Revolving Fund | 36,623 | 108,279 | 15,428 | 52,493 |
| Total Proprietary Funds | | | 354,664 | | 138,511 |
| Total Governmental and Proprietary Funds | | | 1,280,969 | | 1,500,346 |

Continued on next page

| Fund Type | Fund | Due From | Totals | Due To | Totals |
|---|---|---|---|---|---|
| Totals from previous page | | | 1,280,969 | | 1,500,346 |
| Trust and Agency: | | | | | |
| Expendable Trust | Human Services Trust Fund | 3,466 | | 1,173 | |
| | Higher Education Trust Fund | 45,930 | | 7,111 | |
| | Deferred Compensation Trust Fund | - | | 8 | |
| | Miscellaneous Trust Fund | 14,193 | 63,589 | 3,290 | 11,582 |
| Nonexpendable Trust | Higher Education Endowment Fund | 53,763 | | 174,295 | |
| | Common School Permanent Fund | - | 53,763 | 910 | 175,205 |
| Pension/Investment Trust | Public Employees' Plan 1 Fund | 3,520 | | 643 | |
| | Public Employees' Plan 2 Fund | 312 | | 4,516 | |
| | Teachers' Plan 1 Fund | 124 | | 275 | |
| | Teachers' Plan 2 & 3 Defined Benefit Fund | 8 | | 592 | |
| | School Employees' Plan 2 & 3 Defined Benefit Fund | 3,051 | | 3,723 | |
| | L.E.O.F.F Plan 1 Fund | 7 | | 106 | |
| | L.E.O.F.F Plan 2 Fund | 6 | | 177 | |
| | Washington State Patrol Fund | 1 | | 5 | |
| | Judicial Retirement System | 2 | | - | |
| | Judges Fund | 19 | | - | |
| | Volunteer Fire Fighters' Fund | 5 | | 1 | |
| | Local Government Investment Pool | - | 7,055 | 35 | 10,073 |
| Agency | Clearing Fund | 2,386 | | 133 | |
| | Suspense Fund | 11,288 | | 8,741 | |
| | Local Government Distributions Fund | 314,936 | | 18 | |
| | Pooled Investments Fund | 271,290 | 599,900 | 299,178 | 308,070 |
| Total Trust and Agency Funds | | | 724,307 | | 504,930 |
| **Total Due From and To Other Funds** | | | $ 2,005,276 | | $ 2,005,276 |

# Note 7 - Fixed Assets

## A. General Fixed Assets

The following is a summary of changes in the General Fixed Assets Account Group during Fiscal Year 2001 (expressed in thousands):

| General Fixed Assets | Balances July 1, 2000 | Additions | Deletions | Balances June 30, 2001 |
|---|---|---|---|---|
| Land | $ 1,022,490 | 37,435 | (117,469) | $ 942,456 |
| Buildings | 4,663,335 | 612,413 | (90,757) | 5,184,991 |
| Accumulated depreciation | (1,401,317) | (136,631) | 12,202 | (1,525,746) |
| Net buildings | 3,262,018 | | | 3,659,245 |
| Furnishings and equipment | 951,645 | 948,998 | (164,181) | 1,736,462 |
| Accumulated depreciation | (646,709) | (351,866) | 52,724 | (945,851) |
| Net furnishings and equipment | 304,936 | | | 790,611 |
| Other improvements and miscellaneous | 1,127,771 | 250,118 | (33,446) | 1,344,443 |
| Accumulated depreciation | (184,065) | (75,226) | 5,118 | (254,173) |
| Net other improvements and miscellaneous | 943,706 | | | 1,090,270 |
| Construction in progress | 862,656 | 524,915 | (272,289) | 1,115,282 |
| **Total General Fixed Assets** | $ 6,395,806 | | | $ 7,597,864 |

The following summarizes the funding source of the investment in General Fixed Assets as of June 30, 2001, (expressed in thousands):

| Source of Funds by Fund Type: | Balances June 30, 2001 |
|---|---|
| General | $ 1,859,997 |
| Special Revenue | 1,786,107 |
| Capital Projects | 3,914,301 |
| Expendable Trust | 37,459 |
| **Total General Fixed Assets** | $ 7,597,864 |

## B. Proprietary Fixed Assets

The following is a summary of proprietary fund type fixed assets at June 30, 2001, (expressed in thousands):

| Fixed Assets | Enterprise | Internal Service |
|---|---|---|
| Land | $ 24,054 | $ 1,458 |
| Buildings | 937,735 | 57,809 |
| Accumulated depreciation | (315,624) | (8,779) |
| Net buildings | 622,111 | 49,030 |
| Furnishings and equipment | 260,852 | 504,258 |
| Accumulated depreciation | (180,517) | (267,046) |
| Net furnishings and equipment | 80,335 | 237,212 |
| Other improvements and miscellaneous | 64,401 | 24,941 |
| Accumulated depreciation | (15,316) | (10,394) |
| Net other improvements and miscellaneous | 49,085 | 14,547 |
| Construction in progress | 302,487 | 15,797 |
| **Total Fixed Assets** | $ 1,078,072 | $ 318,044 |

## C. Construction in Progress

Other major construction commitments of the state at June 30, 2001, are as follows (expressed in thousands):

| Agency/Project Commitments | Construction In Progress June 30, 2001 | Remaining Project Commitments |
|---|---|---|
| Department of General Administration: | | |
| Various projects | $ 83,442 | $ 249,786 |
| Liquor Control Board: | | |
| Distribution center | 22,255 | - |
| Washington State Patrol: | | |
| Seattle crime laboratory | 1,516 | 12,200 |
| Military Department: | | |
| Emergency operation center and other projects | 16,121 | 23,918 |
| Department of Social and Health Services: | | |
| State hospital and juvenile rehabilitation renovations, and other projects | 136,852 | 34,300 |
| Department of Corrections: | | |
| Correctional centers construction, improvements, and other projects | 259,652 | 526,159 |
| Department of Transportation: | | |
| Maintenance facilities, ferry vessels, and terminals | 214,427 | 103,174 |
| Department of Fish and Wildlife: | | |
| Hatchery renovations, site improvements, and other projects | 1,432 | 108 |
| State Convention and Trade Center: | | |
| Various projects | 175,185 | - |
| Higher Education Facilities: | | |
| University of Washington | 198,725 | 346,852 |
| Washington State University | 96,798 | 93,837 |
| Eastern Washington University | 7,422 | - |
| Central Washington University | 6,157 | - |
| Western Washington University | 39,910 | 28,022 |
| Community and Technical Colleges | 150,451 | 44,086 |
| Other Agency Miscellaneous Projects | 23,221 | 11,032 |
| **Total Construction in Progress** | $ 1,433,566 | $ 1,473,474 |

## Note 8 - Lease Commitments

The state leases land, office facilities, office and computer equipment, and other assets. Although lease terms vary, most leases are subject to appropriation from the state Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. The total operating lease expenditures for Fiscal Years 2000 and 2001 were $295.6 million and $317.2 million, respectively.

Future minimum lease commitments for noncancelable operating and capital leases as of June 30, 2001, are as follows (expressed in thousands):

| | | Capital Leases | | | |
|---|---|---|---|---|---|
| **Lease Commitments during Fiscal Years:** | **Operating Leases** | Enterprise Funds | Internal Service Funds | General L.T. Obligations Account Group | **Total All Leases** |
| 2002 | $ 89,761 | $ 375 | $ 574 | $ 2,440 | $ 93,150 |
| 2003 | 81,100 | 341 | 404 | 2,083 | 83,928 |
| 2004 | 68,816 | 333 | 374 | 2,061 | 71,584 |
| 2005 | 57,889 | 317 | 338 | 2,030 | 60,574 |
| 2006 | 48,332 | 272 | 77 | 1,987 | 50,668 |
| Thereafter | 179,338 | 1,126 | 21 | 9,871 | 190,356 |
| **Total Future Minimum Lease Commitments** | $ 525,236 | 2,764 | 1,788 | 20,472 | $ 550,260 |
| Amounts representing executory and interest costs | | 828 | 165 | 4,422 | |
| **Present Value of Future Minimum Lease Commitments** | | $ 1,936 | $ 1,623 | $ 16,050 | |

## Note 9 - Claims and Judgments Payable

Claims and judgments payable is materially comprised of the three activities described below: workers' compensation, risk management, and state employees' insurance.

### A. Workers' Compensation

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2000 and 2001 were as follows (expressed in thousands):

| **Workers' Compensation Fund** | **Balances Beginning of Fiscal Year** | Current Year Claims and Changes in Estimates | Claim Payments | **Balances End of Fiscal Year** |
|---|---|---|---|---|
| FY 2000 | $ 12,515,445 | 2,359,394 | (1,253,137) | $ 13,621,702 |
| FY 2001 | $ 13,621,702 | 1,990,349 | (1,368,938) | $ 14,243,113 |

As discussed in Note 1.L, the Workers' Compensation Fund, an enterprise fund, establishes a liability for both reported and incurred but not reported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

At June 30, 2001, $28.9 billion of unpaid claims and claim adjustment expenses are presented at their net present value of $14.2 billion. These claims are discounted at assumed interest rates of 4.0 (time loss and medical) to 6.5 percent (pensions) and are net of third party recoveries.

The $14.2 billion claims and claim adjustment liabilities as of June 30, 2001, includes $6.98 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded. These COLA payments are funded on a pay-as-you-go basis, and the Workers' Compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due. The remaining $7.3 billion in claims liabilities is fully funded by long-term investments, net of obligations under securities lending agreements.

### B. Risk Management

Changes in the balances of risk management claims liabilities during Fiscal Years 2000 and 2001 were as follows (expressed in thousands):

| Risk Management Fund | Balances Beginning of Fiscal Year | Current Year Claims and Changes in Estimates | Claim Payments | Tort Defense Payments | Balances End of Fiscal Year |
|---|---|---|---|---|---|
| FY 2000 | $ 138,292 | 139,070 | (23,496) | (13,619) | $ 240,247 |
| FY 2001 | $ 240,247 | 131,096 | (85,425) | (17,181) | $ 268,737 |

The Risk Management Fund, an internal service fund, reports claims and judgment liabilities when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, it should be recognized that future loss emergence will likely deviate, perhaps materially, from the actuarial estimates. Claims liabilities are re-evaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

The state is a defendant in a significant number of lawsuits pertaining to property and casualty matters. As of June 30, 2001, outstanding and actuarially determined claims against the state and its public authorities were $268.7 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims. At June 30, 2001, the Risk Management Fund held no funds designated for payment of these claims under the state's Self Insurance Liability Program.

### C. State Employees' Insurance

Changes in the balances of state employees' insurance claims liabilities during Fiscal Years 2000 and 2001 were as follows (expressed in thousands):

| State Employees' Insurance Fund | Balances Beginning of Fiscal Year | Current Year Claims and Changes in Estimates | Claim Payments | Balances End of Fiscal Year |
|---|---|---|---|---|
| FY 2000 | $ 23,836 | 234,972 | (223,542) | $ 35,266 |
| FY 2001 | $ 35,266 | 262,342 | (254,461) | $ 43,147 |

The State Employees' Insurance Fund, an internal service fund, establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not always result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

At June 30, 2001, state employees' insurance claims liabilities totaling $43.1 million are fully funded with cash and investments, net of obligations under securities lending agreements.

## Note 10 - Bonds Payable

### A. General Information

Bonds payable at June 30, 2001, consisted of bonds issued by the state of Washington and accounted for in the General Long-Term Obligations Account Group, and certain state agency bonds accounted for in proprietary funds. A detailed schedule of bonds issued and outstanding and those proprietary bonds accounted for by the State Treasurer are presented in the Washington State Treasurer's Annual Report for 2001. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TDD (360) 902-8963.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the Legislature or by a body designated by statute (presently the State Finance Committee). Legislative authorization arises from an affirmative vote of 60 percent of both legislative houses without voter consent, or from an affirmative vote of more than 50 percent of both legislative houses and a majority of the voters voting thereon. State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1) temporary deficiencies in the state treasury (must be discharged within 12 months of the date of incurrence); (2) appropriations already made by the Legislature; or (3) refunding of outstanding obligations of the state.

Debt authorized in the preceding procedures is generally limited by the State Constitution and current statutes. The limitations prohibit the issuance of new debt if it would cause the maximum annual debt service, on all thereafter outstanding general obligation debt, to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These limitations are on the incurrence of new debt, not on the amount of debt service which may be paid by the state in future years.

As certified by the State Treasurer, the maximum debt authorization subject to limitation for Fiscal Year 2001 was $5.4 billion, under the then current constitutional and statutory limitation. This computation excludes specific bond issues and types which are not secured by general state revenues. Based on the debt limitation calculation, the debt service requirements as of June 30, 2001, did not exceed the authorized debt service limitation.

**Computation of Legal Debt Limitation (expressed in millions)** [1]

| | |
|---|---|
| Three year mean, general state revenues | $ 8,306 |
| Legal Debt Limitation: | |
| Debt service limitation (7 percent of above) | $ 581 |
| Less: Projected maximum annual debt service of outstanding bonds | 560 |
| Uncommitted Portion of Debt Service Limitation | $ 21 |
| | |
| Remaining state general obligation debt capacity | $ 299 |
| Plus - Debt outstanding subject to limitation | 5,114 |
| Maximum Debt Authorization Subject to Limitation | $ 5,413 |

[1] Source: Office of the State Treasurer - Certification of the Debt Limitation of the State of Washington for Fiscal Year 2001.

## B. Schedule of Bonds Payable

A schedule of bonds payable by fund type as of June 30, 2001, is as follows (expressed in thousands):

| **Bonds Payable** | Enterprise | Internal Service | General L.T. Obligations Account Group | **Totals** |
|---|---|---|---|---|
| General obligation (GO) bonds | $ 176,055 | $ - | $ 7,210,495 | $ 7,386,550 |
| GO - zero coupon bonds (principal) | 29,259 | - | 264,441 | 293,700 |
| Subtotals | 205,314 | - | 7,474,936 | 7,680,250 |
| GO - zero coupon bonds' accreted interest | 12,190 | - | 161,319 | 173,509 |
| Revenue bonds | 277,500 | - | - | 277,500 |
| **Total Bonds Payable** | $ 495,004 | $ - | $ 7,636,255 | $ 8,131,259 |

## C. General Obligation Bonds

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for public and common schools, higher education, public and mental health, corrections, conservation, and maintenance and construction of highways, roads, and bridges. The state has also issued bonds for assistance to municipalities for construction of water and sewage treatment facilities and corrections facilities. In addition, bonds are authorized and issued to provide for the refunding of general obligation bonds outstanding.

Zero coupon general obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of public administrative buildings and facilities, and capital facilities for public and common schools and higher education.

Total debt service requirements for general obligation bonds to maturity as of June 30, 2001, are as follows (expressed in thousands):

| | General Obligation | | Zero Coupon | | **Totals** | |
|---|---|---|---|---|---|---|
| **General Obligation Bonds** | Principal | Interest | Principal | Interest | Principal | Interest |
| By Fiscal Year: | | | | | | |
| 2002 | $ 405,365 | $ 389,909 | $ 18,187 | $ 12,534 | $ 423,552 | $ 402,443 |
| 2003 | 371,510 | 377,108 | 14,914 | 13,670 | 386,424 | 390,778 |
| 2004 | 346,985 | 357,076 | 13,320 | 14,061 | 360,305 | 371,137 |
| 2005 | 353,550 | 336,815 | 16,018 | 19,884 | 369,568 | 356,699 |
| 2006 | 361,855 | 317,055 | 11,734 | 16,453 | 373,589 | 333,508 |
| 2007-2011 | 1,785,005 | 1,279,779 | 56,404 | 103,400 | 1,841,409 | 1,383,179 |
| 2012-2016 | 1,685,235 | 822,118 | 50,999 | 104,773 | 1,736,234 | 926,891 |
| 2017-2021 | 1,411,960 | 370,924 | 112,124 | 221,674 | 1,524,084 | 592,598 |
| Thereafter | 665,085 | 79,245 | - | - | 665,085 | 79,245 |
| **Total Debt Service Requirements** | $ 7,386,550 | $ 4,330,029 | $ 293,700 | $ 506,449 | $ 7,680,250 | $ 4,836,478 |

General obligation bonds outstanding and bonds authorized but unissued at June 30, 2001, are as follows (expressed in thousands):

| Purpose | Interest Rates | Outstanding Amounts | Authorized but Unissued |
|---|---|---|---|
| School building construction | 4.25% to 7.25% | $ 221,973 | $ 143 |
| Higher education | 3.70% to 7.75% | 256,441 | 141,785 |
| Institutional and public buildings | 5.83% to 7.05% | 29,259 | 98,510 |
| Highways | 4.00% to 7.00% | 1,135,885 | 2,253,275 |
| Administrative buildings | 4.50% to 5.00% | 15,255 | - |
| General | 3.70% to 9.00% | 6,021,437 | 1,457,285 |
| **Totals** | | $ 7,680,250 | $ 3,950,998 |

## D. Revenue Bonds

Current state statutes empower certain state agencies to issue bonds that are not supported, or are not intended to be supported, by the full faith and credit of the state. These bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

Revenue bonds issued by individual agencies are supported by fees and rentals assessed to users. Issuing agencies include the University of Washington (housing, dining, and student facilities construction), Washington State University (housing, dining, parking, and student facilities construction), Eastern Washington University (housing, dining, and student facilities construction), Central Washington University (housing, dining, and student facilities construction), The Evergreen State College (housing and dining), Western Washington University (housing and dining), and various Community Colleges (housing, dining, and student facilities construction).

Total debt service requirements for revenue bonds to maturity at June 30, 2001, are as follows (expressed in thousands):

| Revenue Bonds | Principal | Interest | Totals |
|---|---|---|---|
| By Fiscal Year: | | | |
| 2002 | $ 7,463 | $ 12,433 | $ 19,896 |
| 2003 | 8,679 | 14,662 | 23,341 |
| 2004 | 8,806 | 14,227 | 23,033 |
| 2005 | 9,126 | 13,784 | 22,910 |
| 2006 | 8,917 | 13,334 | 22,251 |
| 2007-2011 | 50,271 | 59,173 | 109,444 |
| 2012-2016 | 58,939 | 43,819 | 102,758 |
| 2017-2021 | 52,493 | 28,686 | 81,179 |
| Thereafter | 72,806 | 19,406 | 92,212 |
| **Total Debt Service Requirements** | $ 277,500 | $ 219,524 | $ 497,024 |

Revenue bonds outstanding and bonds authorized but unissued at June 30, 2001, are as follows (expressed in thousands):

| Purpose | Interest Rates | Outstanding Amounts | Authorized but Unissued |
|---|---|---|---|
| Higher education - Student acitivities | 4.80% to 5.90% | $ 129,986 | $ 20 |
| Higher education | 4.28% to 5.86% | 137,373 | - |
| Other public buildings | 4.40% to 5.95% | 10,141 | - |
| **Totals** | | $ 277,500 | $ 20 |

## E. Defeased Bonds

When advantageous and permitted by statute or bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. The net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been excluded from the state's financial statements.

CURRENT YEAR DEFEASANCES
During the fiscal year ended June 30, 2001, the state issued the following bonds to refund various outstanding issues:

General Long-Term Obligations
On December 15, 2000, the state issued $12.1 million of Various Purpose General Obligation Refunding Bonds (Series R-2001T) to refund $10.4 million of Various Purpose General Obligation Bonds from several different series. The refunding resulted in a $3.5 million reduction in gross debt service savings over the next 19 years but an economic loss of $0.9 million.

On June 1, 2001, the state issued $405.6 million of Various Purpose General Obligation Refunding Bonds (Series R-2001A) to refund $417.9 million of Various Purpose General Obligation Bonds from several different series. The refunding was undertaken to take advantage of $44.8 million reduction in gross debt service savings over the next 13 years. This refunding resulted in an economic gain of $37.7 million.

On June 1, 2001, the state issued $119.6 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds (Series R-2001B) to refund $120 million of Motor Vehicle Fuel Tax General Obligation Bonds. The refunding was undertaken to take advantage of $12.3 million reduction in gross debt service savings over the next 9 years. This refunding resulted in an economic gain of $10.4 million.

Proprietary Funds
On February 15, 2001, $22.2 million in Housing and Dining Service Refunding Bonds (Series R-2001) were issued to refund $20.6 million in Housing and Dining Service Bonds (Series 1994). This refunding was undertaken to take advantage of $2.3 million reduction in gross debt service savings over the next 24 years. This refunding resulted in an economic gain of $1.4 million.

PRIOR YEAR DEFEASANCES
State refunded and defeased bonded debt outstanding totaled $179 million for general governmental bonded debt and $66 million for proprietary bonded debt as of June 30, 2001.

## F. School Bond Guarantee Program

Washington voters passed a constitutional amendment in November 1999 creating the Washington State School Bond Guarantee Program. The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the payment of voter-approved school district general obligation bonds. The State Treasurer introduced the new School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2001, the state had guaranteed 52 school districts' voter-approved general obligation debt with a total outstanding principal of $748.8 million.

## Note 11 - Certificates of Participation

Current state law authorizes the state to enter into long-term financing contracts for the acquisition of real or personal property and for the issuance of certificates of participation in the contracts. These certificates of participation do not fall under the general obligation debt limitations and are generally payable only from annual appropriations by the Legislature. Other specific provisions could also impact the state's obligation under certain agreements. If the possibility of the state not meeting the terms of the agreement is considered remote, the certificate of participation is recorded for financial reporting purposes.

Total debt service requirements for certificates of participation to maturity as of June 30, 2001, are as follows (expressed in thousands):

| **Certificates of Participation** | Principal | Interest | **Total** |
|---|---|---|---|
| By Fiscal Year: | | | |
| 2002 | $ 28,816 | $ 23,506 | $ 52,322 |
| 2003 | 31,443 | 22,385 | 53,828 |
| 2004 | 29,365 | 20,997 | 50,362 |
| 2005 | 28,235 | 19,658 | 47,893 |
| 2006 | 26,535 | 18,387 | 44,922 |
| 2007-2011 | 124,631 | 74,677 | 199,308 |
| 2012-2016 | 169,465 | 38,933 | 208,398 |
| 2017-2021 | 47,115 | 4,863 | 51,978 |
| Thereafter | 2,855 | 140 | 2,995 |
| **Total Debt Service Requirements** | $ 488,460 | $ 223,546 | $ 712,006 |

On September 1, 1998, the state lease-purchase program was extended to enable local government to participate in low cost financing of essential equipment (Local Option Capital Asset Lending Program (LOCAL)). The program allows local participants to pool their financing requests together with Washington State agencies for lower tax-exempt interest rates. While these bonds do not constitute a debt or pledge of the faith and credit of the state, in the event of default these financing contracts have the state's guarantee to the extent of legally available appropriated funds. As of June 30, 2001, outstanding certificates of participation bonds totaled $17.7 million for 104 local governments participating in LOCAL.

## Note 12 - No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans to qualified borrowers for capital acquisitions, construction, and related improvements. These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their faith and credit for the payment of such bonds. Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

The table below presents the latest available balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

| No Commitment Debt | Principal Balance |
|---|---|
| Washington State Housing Finance Commission | $ 1,940,972 |
| Washington Higher Education Facilities Authority | 321,384 |
| Washington Health Care Facilities Authority | 2,222,396 |
| Washington Economic Development Finance Authority | 178,596 |
| **Total No Commitment Debt** | $ 4,663,348 |

## Note 13 - Changes in General Long-Term Obligations

The changes in the General Long-Term Obligations Account Group for the fiscal year ended June 30, 2001, are summarized as follows (expressed in thousands):

| General Long-Term Obligations | Balance July 1, 2000 | Debt Issued | Debt Paid | Other Changes | Balance June 30, 2001 |
|---|---|---|---|---|---|
| Bonds: | | | | | |
| General obligation (GO) | $ 6,775,715 | 1,314,019 | (879,239) | - | $ 7,210,495 |
| GO - zero coupon bonds (principal) | 279,210 | - | (14,769) | - | 264,441 |
| GO - zero coupon bonds' accreted interest | 125,702 | 35,617 | - | - | 161,319 |
| Notes and contract obligations | 191,645 | 23,321 | (1,383) | - | 213,583 |
| Other Long-Term Obligations: | | | | | |
| Lease obligations (net) | 6,135 | - | - | 9,915 | 16,050 |
| Compensated absences (net) | 324,765 | - | - | 19,394 | 344,159 |
| Other obligations (net) | 3,863 | - | - | 3,724 | 7,587 |
| Claims and judgements (net) | 11,596 | - | - | (2,391) | 9,205 |
| Accrued retirement costs | 36,800 | - | - | 3,300 | 40,100 |
| **Totals** | $ 7,755,431 | 1,372,957 | (895,391) | 33,942 | $ 8,266,939 |

## Note 14 - Residual Equity Transfers

The table below reflects residual equity transfers in and out and related activity that occurred during the fiscal year ended June 30, 2001, (expressed in thousands):

| **Residual Equity Transfers** | In | Out |
|---|---|---|
| Motor Vehicle Fund | $ 8,387 | $ - |
| Transportation Fund | - | 376 |
| Higher Education Fund | 402 | - |
| State Ferry Fund | 298,696 | - |
| Student Services Fund | - | 98 |
| Equipment Revolving Fund | - | 1,000 |
| Higher Education Revolving Fund | - | 55 |
| Higher Education Trust Fund | - | 248 |
| Higher Education Endowment Fund | - | 1 |
| Subtotals | 307,485 | 1,778 |
| Transferred to/from Account Groups | - | 305,707 |
| **Total Residual Equity Transfers** | $ 307,485 | $ 307,485 |

## Note 15 - Reservations and Designations of Equity

The nature and purposes of equity reserves and designations as of June 30, 2001, are listed below (expressed in thousands):

### Reservations and Designations of Fund Balance

| | General | Special Revenue | Debt Service | Capital Projects | Trust | **Totals (Memo Only)** |
|---|---|---|---|---|---|---|
| **Reserved for:** | | | | | | |
| Encumbrances | $ 7,585 | $ 198,447 | $ - | $ 59,477 | $ 83,457 | $ 348,966 |
| Inventories | 14,619 | 37,969 | - | - | 155 | 52,743 |
| Long-term student loans | - | - | - | - | 97,601 | 97,601 |
| Investments with trustees | 581 | 439 | - | - | 1,191 | 2,211 |
| Restricted accounts | 303,060 | - | - | - | - | 303,060 |
| Nonexpendable trust corpus | - | - | - | - | 1,691,211 | 1,691,211 |
| Unemployment compensation | - | - | - | - | 1,956,833 | 1,956,833 |
| Deferred compensation | - | - | - | - | 1,311,889 | 1,311,889 |
| Pension benefits | - | - | - | - | 44,012,695 | 44,012,695 |
| Local Gov't Invest. Pool participants | - | - | - | - | 4,990,566 | 4,990,566 |
| Long-term receivables | 612,597 | 12,309 | - | 3,511 | 287,289 | 915,706 |
| Long-term investments | 1,022 | 52,137 | - | - | 119,862 | 173,021 |
| Emergency reserve | 476,385 | - | - | - | - | 476,385 |
| Petty cash | 624 | 4,874 | - | - | 69 | 5,567 |
| **Total Reserved Fund Balance** | $ 1,416,473 | $ 306,175 | $ - | $ 62,988 | $ 54,552,818 | $ 56,338,454 |
| **Unreserved, Designated for:** | | | | | | |
| Debt service | $ - | $ - | $ 82,935 | $ - | $ - | $ 82,935 |
| Working capital | 856,248 | - | - | - | - | 856,248 |
| Net unrealized gains | 15,079 | 34,246 | - | - | - | 49,325 |
| Higher education | - | 155,679 | - | - | 4,463 | 160,142 |
| **Total Unreserved, Designated Fund Balance** | $ 871,327 | $ 189,925 | $ 82,935 | $ - | $ 4,463 | $ 1,148,650 |

## Note 16 - Deficit Retained Earnings

At June 30, 2001, there were two proprietary funds with deficit retained earnings.

The Workers' Compensation Fund, an enterprise fund, had deficit retained earnings of $5.4 billion at June 30, 2001. The fund is used to account for the workers' compensation program which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

The following schedule details the changes in total fund equity for the Workers' Compensation Fund during the fiscal year ended June 30, 2001, (expressed in thousands):

| **Workers' Compensation Fund** | Contributed Capital | Retained Earnings (Deficit) | **Total Fund Equity (Deficit)** |
|---|---|---|---|
| **Balances as restated, July 1, 2000** | $ 23 | $ (5,063,334) | $ (5,063,311) |
| Fiscal Year 2001 activity | - | (362,864) | (362,864) |
| **Balances, June 30, 2001** | $ 23 | $ (5,426,198) | $ (5,426,175) |

The Risk Management Fund, an internal service fund, had deficit retained earnings of $271.2 million at June 30, 2001. The Risk Management Fund is used to account for the claims, torts, judgments generally arising from automobile, ferry services, and general government operations, and loss adjustment expenses for tort defense. These costs are supported by premium assessments to state agencies that are designed to cover current and future claim losses. Outstanding and incurred but not reported claims are actuarially determined and accrued, resulting in the deficit retained earnings.

The Self Insurance Liability Program initiated in 1990 is intended to provide funds for the payment of all claims and loss adjustment expenses for tort defense.

The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims. At June 30, 2001, the Risk Management Fund held no funds designated for payment of these claims under the state's Self Insurance Liability Program.

The following schedule details the changes in retained earnings for the Risk Management Fund during the fiscal year ended June 30, 2001, (expressed in thousands):

| **Risk Management Fund** | **Retained Earnings (Deficit)** |
|---|---|
| **Balance as restated, July 1, 2000** | $ (184,115) |
| Fiscal Year 2001 activity | (87,037) |
| **Balance, June 30, 2001** | $ (271,152) |

## Note 17 - Retirement Systems

### A. General

The state of Washington, through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrator for the Courts, administers eleven defined benefit retirement plans and three defined contribution retirement plans covering eligible employees of the state and local governments. Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan.

DEPARTMENT OF RETIREMENT SYSTEMS
As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers seven retirement systems comprising ten defined benefit pension plans and two defined contribution plans as follows:

Public Employees' Retirement System (PERS)
- Plan 1 - defined benefit
- Plan 2 - defined benefit

Teachers' Retirement System (TRS)
- Plan 1 - defined benefit
- Plan 2/3 - defined benefit
- Plan 3 - defined contribution

School Employees' Retirement System (SERS)
- Plan 2/3 – defined benefit
- Plan 3 – defined contribution

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
- Plan 1 - defined benefit
- Plan 2 - defined benefit

Washington State Patrol Retirement System (WSPRS)
- Defined benefit plan

Judicial Retirement System (JRS)
- Defined benefit plan

Judges' Retirement Fund (Judges)
- Defined benefit plan

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS, TRS, SERS, and LEOFF systems and plans is funded by an employer rate of .23 to .25 percent of employee salaries. Administration of the WSPRS, JRS, and Judges plans is funded by means of legislative appropriations.

The Department of Retirement Systems prepares a stand-alone financial report. Copies of the report that include financial statements and required supplemental information may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380.

BOARD FOR VOLUNTEER FIRE FIGHTERS
As established in chapter 41.24 RCW, the Washington Board for Volunteer Fire Fighters' administers the Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of VFFRPF is funded through legislative appropriation.

ADMINISTRATOR FOR THE COURTS
As established in chapter 2.14 RCW, the Administrator for the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

TIAA/CREF
Eligible higher education state employees may participate in the Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) which is a privately administered defined contribution plan.

Plan descriptions, funding policies, and a table of employer contributions required and paid for defined benefit plans follow at Notes 17.B through D respectively. For information related to defined contribution plans, refer to Note 17.I. Details on plan net assets for pension plans administered by the state are presented at Note 17.J.

**B. Plan Description**

Membership of each defined benefit plan consisted of the following at December 31, 2000, the date of the latest actuarial valuation for all plans except for TRS which had an actuarial valuation performed on June 30, 2000.

| Defined Benefit Plans Administered by the State | Retirees and Beneficiaries Receiving Benefits | Terminated Plan Members Entitled to but not yet Receiving Benefits | Active Plan Members Vested | Active Plan Members Nonvested | Total |
|---|---|---|---|---|---|
| PERS 1 | 53,161 | 3,220 | 23,915 | 1,918 | 82,214 |
| PERS 2 | 7,927 | 14,094 | 74,103 | 52,325 | 148,449 |
| TRS 1 | 29,839 | 1,985 | 16,878 | 344 | 49,046 |
| TRS 2/3 | 611 | 3,441 | 23,372 | 23,264 | 50,688 |
| SERS 2/3 | 27 | 733 | 25,338 | 22,387 | 48,485 |
| LEOFF 1 | 7,780 | 31 | 1,497 | 2 | 9,310 |
| LEOFF 2 | 143 | 248 | 9,183 | 3,950 | 13,524 |
| WSPRS | 672 | 84 | 762 | 251 | 1,769 |
| JRS | 131 | 2 | 32 | - | 165 |
| Judges | 18 | - | 1 | - | 19 |
| VFFRPF | 2,638 | 3,960 | 5,035 | 7,219 | 18,852 |

Following is a summary of government employers participating in state administered retirement plans as of December 31, 2000.

| Plan | State Agencies | Public Schools | Counties/ Municipalities | Other Political Subdivisions |
|---|---|---|---|---|
| PERS 1 | 178 | 257 | 216 | 257 |
| PERS 2 | 186 | 1 | 265 | 443 |
| TRS 1 | 91 | 287 | - | - |
| TRS 2/3 | 48 | 294 | - | - |
| SERS 2/3 | 10 | 294 | - | - |
| LEOFF 1 | - | - | 119 | 30 |
| LEOFF 2 | 7 | - | 227 | 128 |
| WSPRS | 1 | - | - | - |
| JRS | 3 | - | - | - |
| Judges | 1 | - | - | - |
| VFFRPF | - | - | - | 520 |

### Public Employees' Retirement System (PERS)

PERS is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those joining after September 30, 1977, are Plan 2 members. PERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to PERS accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts; employees of legislative committees; community and technical college, college, and university employees not in national higher education retirement programs such as TIAA/CREF; judges of district and municipal courts; noncertificated employees of school districts (in PERS Plan 1 only); and employees of local governments. Approximately 51 percent of PERS salaries is from state employment.

Retirement benefit provisions are established in state statute and may be amended only by the state Legislature. PERS benefits are vested after an employee completes five years of eligible service.

Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of membership service (AFC is based on the greatest compensation during any eligible 24 consecutive compensation months), capped at 60 percent of AFC.

Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent per year of membership service of the AFC (AFC is based on the greatest compensation during any consecutive eligible 60 month period). Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3% per year reduction applies, otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 1 provides duty and nonduty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The amount of the allowance is two-thirds of the AFC, not to exceed $4,200 a year. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or attains the age of 60. A member with five years of membership service is eligible for nonduty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year by which the date of disablement precedes the disabled member's 55th birthday. The total benefit is limited to 60 percent of the AFC.

Legislation passed in the 2001 session increases the number of hours a retiree can work before there is a suspension in their benefit. The cost impact of this provision is to be studied over the next several years. There were no other material changes in PERS benefit provisions effective for the fiscal year ended June 30, 2001. The 2000 session created PERS Plan 3 which offers both a defined benefit component and a defined contribution component. For state and higher education employees, PERS Plan 3 goes into effect March 1, 2002, and for local government employees, September 1, 2002. Current PERS Plan 2 members have the option to transfer to PERS Plan 3. PERS members hired after the effective date of PERS Plan 3 have the option of selecting membership in either Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

### Teachers' Retirement System (TRS)

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans: Plans 1 and 2/3 are defined benefit plans and Plan 3 is a defined contribution plan. TRS participants who joined the system by September 30, 1977 are Plan 1 members. Those joining between October 1, 1977, and June 30, 1996, are Plan 2/3 members unless they exercise an option to transfer their holdings to Plan 3. Those joining after June 30, 1996, and those exercising the transfer option, are members of both Plan 2/3 and Plan 3. TRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

The TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated employee in grades K-12 in the public schools. TRS is comprised principally of nonstate employees.

TRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature. Defined benefit plan benefits are vested after an employee completes five years of eligible service in Plans 1 or 2, and from five to ten years in TRS Plan 3.

Teachers in Plan 1 are eligible to retire either after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The benefit is 2 percent of the average earnable compensation per year of service (average earnable compensation is based on the greatest compensation during the highest of any consecutive two compensation contract years).

The normal retirement age for Plan 2/3 employees is 65. However, members are eligible to retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service. Plan 3 retirement benefits may be paid at age 55 with 10 years of service. Plan 2/3 benefits are 2 percent of the average final compensation per year of service for members not enrolled in Plan 3 Defined Contribution Plan (DC) and 1 percent of the average final compensation per year of service for members enrolled in Plan 3 DC. TRS Plan 1 and Plan 2/3 also provide a cost-of-living allowance indexed to the Seattle Consumer Price Index capped at 3 percent annually (average final compensation is based on the greatest compensation during any consecutive 60 month period). Plan 2/3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3% per year reduction applies, otherwise an actuarial reduction will apply.

Death and disability benefits are available in Plan 1. TRS Plan 1 members receive the following additional lump sum death benefits: retired members - $400 (if at least ten years of membership service), active members - $600. Members on temporary disability receive a temporary life annuity of $180 per month payable up to two years. After five years of service, members on a disability retirement receive an allowance based on salary and service to date of disability. Members prior to April 25, 1973 may elect a benefit based on the formula in effect at that time.

Legislation passed in the 2001 session increases the number of hours a retiree can work before there is a suspension in their benefit. The cost impact of this provision is to be studied over the next several years. There were no material changes in TRS benefit provisions effective for the fiscal year ended June 30, 2001.

**School Employees' Retirement System (SERS)**

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans: Plan 2/3 is a defined benefit plan and Plan 3 is a defined contribution plan. SERS Plan 2/3 was formed by transferring school employees from PERS Plan 2 to SERS Plan 2/3 on September 1, 2000. These members had the option of transferring to SERS Plan 3. Those school employees hired after September 1, 2000, become SERS Plan 3 members. SERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to SERS accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

Membership in the system includes non-certificated employees of school districts, except those in PERS Plan 1.

Retirement benefit provisions are established in state statute and may be amended only by the state Legislature. SERS Plan 2 benefits are vested after an employee completes five years of eligible service, and from five to ten years in SERS Plan 3.

The normal retirement age for Plan 2/3 employees is 65. However, members are eligible to retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service. Plan 3 retirement benefits may be paid at age 55 with 10 years of service. Plan 2/3 benefits are 2 percent of the average final compensation per year of service for members not enrolled in Plan 3 Defined Contribution Plan (DC) and 1 percent of the average final compensation per year of service for members enrolled in Plan 3 DC. SERS Plan 2/3 also provides a cost-of-living allowance indexed to the Seattle Consumer Price Index capped at 3 percent annually (average final compensation is based on the greatest compensation during any consecutive 60 month period). Plan 2/3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3% per year reduction applies, otherwise an actuarial reduction will apply.

Legislation passed in the 2001 session increases the number of hours a retiree can work before there is a suspension in their benefit. The cost impact of this provision is to be studied over the next several years. A technical correction was made in the funding provisions for this plan.

There were no other material changes in SERS benefit provisions effective for the fiscal year ended June 30, 2001.

### Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those joining after September 30, 1977 are Plan 2 members. LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation where the state pays the remainder through state legislative appropriations. Employee contributions to LEOFF accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF can elect to withdraw total employee contributions and interest earnings thereon upon termination. Effective July 1, 2000, the employer and employee contribution rate, for LEOFF Plan 1, is set to zero contingent on the plan remaining fully funded.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and fire fighters. LEOFF membership is comprised principally of nonstate employees.

LEOFF retirement benefits are established in state statute and may be amended only by the state Legislature. LEOFF System benefits are vested after an employee completes five years of eligible service.

Plan 1 participants are eligible to retire with five years of service at the age of 50. The benefit per year of service is calculated as a percent of average final salary as follows: 5-10 years - 1.0 percent, 10-20 years - 1.5 percent, 20+ years - 2.0 percent. The average final salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months salary within the last ten years of service. Retirement benefits are fully indexed to the Seattle Consumer Price Index.

Plan 2 participants are eligible to retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service. Retirement benefits prior to the age of 53 are reduced 3% for each year that the benefit commences prior to age 53. The benefit is 2 percent of average salary per year of service. The average salary is based on the highest consecutive 60 months. Retirement benefits are indexed to the Seattle Consumer Price Index with a cap of 3 percent annually.

Significant death and disability benefits are provided by Plan 1. Death benefits for Plan 1 members on active duty consist of the following: (1) if eligible spouse, 50 percent of the average final salary, plus 5 percent of average final salary for each surviving child, with a limitation on the combined allowances of 60 percent of the average final salary; or (2) if no eligible spouse, 30 percent of average final salary for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of average final salary. In addition, a duty death benefit of $150,000 is provided to Plan 1 and Plan 2 members.

Plan 1 members are eligible for disability benefits after a six-month waiting period (during which the salary is paid by the employer). The amount of the allowance is 50 percent of the average final salary plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance. These benefit provisions were established by statute.

Legislation passed in the 2001 session corrected the age from which disability benefits are reduced from 55 to 53. There were no significant changes in LEOFF benefit provisions for the fiscal year ended June 30, 2001.

### Washington State Patrol Retirement System (WSPRS)

WSPRS is a single-employer retirement system comprised of one defined benefit plan. WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

The WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate.

Members are eligible to retire at the age of 55 or after 25 years of service with a benefit of 2 percent of average final salary per year of service. The benefit is capped at 75 percent of average final salary. In addition, a 2 percent cost-of-living allowance is included. Starting on

July 1, 2001 the cost-of-living allowance was increased to a 3 percent compound increase.

WSPRS retirement benefits are established in state statute and may be amended only by the state Legislature. Benefits are vested after an employee completes five years of eligible service.

Benefit provisions include death benefits; however, the system contains no disability benefits. The death benefit for a spouse of a member on active duty consists of 50 percent of average final salary, and 5 percent of average final salary for each surviving child, with a limitation on the combined allowance of 60 percent of average final salary. The death benefit also provides a uniform COLA after a member's death. In addition, a duty death benefit of $150,000 is provided.

Effective July 1, 2001, the employee rate for WSPRS was set to the greater of 2% or employer rate (and the funding method was changed to the aggregate cost method as done for the other Plan 2/3 systems). Starting on July 1, 2001 the cost-of-living allowance was increased to a 3 percent compound increase. Voluntary Department of Transportation overtime was excluded from the definition of salary. There were no other significant changes in WSPRS benefit provisions for the fiscal year ended June 30, 2001.

There were significant changes in benefit provisions for those commissioned after January 1, 2003:

1. Changing from a 2 year to a 5 year Average Final Salary (AFS).
2. Excluding annual and holiday pay cash-outs.
3. Changing military service to include only up to 5 years interruptive military service.
4. Removing the post-retirement death benefit and allowing the member to select an actuarial equivalent benefit option at retirement.
5. Changing the pre-retirement death benefit to return of the member's accumulated contributions for members who are single or have less than ten years of service. For a married member or one with an eligible child, changing the pre-retirement death benefit to a reduced accrued benefit or 150 percent of the member's accumulated contributions at the survivor's option.

These changes will be reflected in valuations which include members commissioned after January 1, 2003.

### Judicial Retirement System (JRS)

JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation where the state pays the remaining contributions. JRS employees accrue no interest on contributions and may not elect to withdraw their contributions upon termination.

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2.

Benefit provisions are established in state statute and may be amended only by the state Legislature. Any member who involuntarily terminates with 12 or more years of credited service and 15 years after beginning judicial service, or voluntarily terminates with 15 or more years of credited service, is vested and shall receive retirement benefits upon attaining the age of 60. Retirement benefits are 3 percent of the average final compensation for 10-15 years of service, and 3.5 percent for 15 or more years of service.

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired, or if greater, 25 percent of the average final compensation of the member. These benefits terminate with the death or remarriage of the recipient. If the member is retired, a 50 percent allowance is provided to the surviving spouse that has been married to the judge at least three years at the time of death. Benefits terminate on remarriage. For members with ten or more years of service, a disability benefit of 50 percent of salary is provided.

There were no significant changes made in JRS benefit provisions for the fiscal year ended June 30, 2001.

### Judges

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. Retirement benefits are financed on a pay-as-you-go basis from a combination of employee contributions, employer contributions, and a special funding situation where the state pays the remaining contributions. Employees do not earn interest on their contributions, nor can they elect to withdraw their contributions upon termination.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to chapter 2.12 RCW, to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington. Subsequent legislation required that all judges first appointed or elected to office on or after August 9, 1971 enter the Judicial Retirement System.

Benefit provisions are established in statute and may be amended only by the state Legislature. Any member who has ten years of credited service and attains the age of 70 or has served as a judge for an aggregate of 18 years, regardless of age, is vested and entitled to receive a retirement allowance upon leaving service. Any member who leaves eligible service after having served as a judge for an aggregate of 12 years is vested and eligible for a partial retirement allowance. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

There were no significant changes made in Judges benefit provisions for the fiscal year ended June 30, 2001.

### The Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF)

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments.

VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

VFFRPF was created by the Legislature in 1945. Membership in the system requires volunteer service with a fire department of an electing municipality of Washington State.

Retirement benefits are established in state statute and may be amended only by the state Legislature. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service.

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of $30 plus $10 per year of service. The maximum monthly benefit is $280. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of $2,000. Funeral and burial expenses are also paid in a lump sum of $2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid $500. Members on active duty shall receive disability payments of $2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive $1,275 per month, their spouse $255, and dependent children $110. Benefit provisions for VFFRPF are established under the authority of chapter 41.24 RCW.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the CPI.

There were no other significant changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2001.

## C. Funding Policies

During the 2001 Session, the Legislature decided to adopt rates based on the 1999 valuation calculated in accordance with the Funding Policy with the following modifications:

1. An 8% investment return assumption was prescribed.
2. A 4.5% salary inflation assumption was prescribed.
3. The amortization of the PERS Plan 1 and TRS Plan 1 unfunded actuarial liability was extended to June 30, 2024. This amortization will no longer be reduced due to future gain sharing.

This replaced the rates adopted by the Pension Funding Council for the 2001-03 Biennium, as adjusted for legislation passed since they were adopted.

A four-year asset smoothing technique is adopted for studies done after July 1, 2001, along with the above changes, subject to future modification by the Pension Funding Council.

### Public Employees' Retirement System (PERS)

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee rates. The employee contribution rate for Plan 1 is established by statute at 6 percent and does not vary from year to year. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW. All employers are required to contribute at the level required by the Legislature.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

PERS Actual Contribution Rates

| | PLAN 1 | PLAN 2 |
|---|---|---|
| Employer Rates: | | |
| State agencies* | 4.67% | 4.67% |
| Local governmental units* | 4.67% | 4.67% |
| State gov't elected officials* | 6.89% | 4.67% |
| Employee Rates: | | |
| State agencies | 6.00% | 2.43% |
| Local governmental units | 6.00% | 2.43% |
| State gov't elected officials | 7.50% | 2.43% |

*Includes an administrative expense rate of 0.23 percent.

**Teachers' Retirement System (TRS)**

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rate and Plan 2/3 employer and employee contribution rates. The employee contribution rate for Plan 1 is established by statute at 6 percent and does not vary from year to year. The employer and employee contribution rates for Plan 2/3 are developed by the Office of the State Actuary to fully fund Plan 2/3. The methods used to determine the contribution requirements are established under state statute as per chapters 41.32 and 41.45 RCW. All employers are required to contribute at the level established by the Legislature. Employees who participate in the DC portion of the TRS 2/3 Plan do not contribute to the DB portion of the TRS 2/3 Plan.

Required contributions (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

TRS Actual Contribution Rates

| | PLAN 1 | PLAN 2/3 |
|---|---|---|
| Employer Rates * | 7.33% | 7.33% |
| Employee Rates: | | |
| State agencies | 6.00% | 3.01% |
| Local governmental units | 6.00% | 3.01% |
| State gov't elected officials | 7.50% | 3.01% |

* Includes an administrative expense rate of 0.23 percent.

**School Employees' Retirement System (SERS)**

Each biennium the state Pension Funding Council adopts Plan 2/3 employer and employee contribution rates. The employer and employee contribution rates for Plan 2/3 are developed by the Office of the State Actuary to fully fund Plan 2/3. The methods used to determine the contribution requirements are established under state statute as per chapters 41.35 and 41.45 RCW. All employers are required to contribute at the level established by the Legislature. Employees who participate in the SERS 3 defined contribution plan do not contribute to the defined benefit portion of the SERS 2/3 Plan.

Required contributions (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

SERS Actual Contribution Rates

| | PLAN 1 | PLAN 2/3 |
|---|---|---|
| Employer Rates* | NA | 4.67% |
| Employee Rates | NA | 2.43% |

*Includes an administrative expense rate of 0.23 percent

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

For Plan 1, employers and employees are required to contribute at a rate of 6 percent, and the state is responsible for the balance of the funding at rates set by the Pension Funding Council. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with chapter 41.45 RCW. All employers are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

LEOFF Actual Contribution Rates

| | PLAN 1 | PLAN 2 |
|---|---|---|
| Employer Rates: | | |
| Ports and Universities* | NA | 7.01% |
| Local governmental units* | 0.23% | 4.30% |
| Employee Rates: | | |
| Ports and Universities | NA | 6.78% |
| Local governmental units | NA | 6.78% |
| State of Washington | NA | 2.71% |

*Includes an administrative expense rate of 0.23 percent.

The Legislature, by means of a special funding arrangement, appropriated money from the General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute.

### Washington State Patrol Retirement System (WSPRS)

State statute (chapter 43.43 RCW) obligates employees to contribute at a fixed rate of 3 percent for Fiscal Year 2001. The contribution rate for the state is adopted by the Pension Funding Council in accordance with chapter 41.45 RCW. The state is required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

WSPRS Actual Contribution Rates

| | |
|---|---|
| Employer Contributions | 0.00% |
| Employee Contributions | 3.00% |

### Judicial Retirement System (JRS)

Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2001, the state contributed $7 million.

### Judges

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2001, the state contributed $.75 million.

### The Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF)

The retirement provisions of VFFRPF is funded through member contributions of $30 per year, employer contributions of $30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. The death and disability provisions of VFFRPF are funded by an employer contribution rate of $10 per member.

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

## D. Employer Contributions Required and Paid

The following table presents the state of Washington's required contributions in millions of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| PERS Plan 1 | $94.0 | $102.6 | $119.3 |
| PERS Plan 2 | 58.2 | 44.1 | 103.0 |
| TRS Plan 1 | 3.5 | 4.7 | 6.0 |
| TRS Plan 2/3 | 0.3 | .3 | .5 |
| SERS Plan 2/3 | 0.0 | NA | NA |
| LEOFF Plan 1 | 0.0 | 0 | 48.8 |
| LEOFF Plan 2 | 21.1 | 17.3 | 22.2 |
| VFFRPF | 3.3 | 2.7 | 2.5 |

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

## E. Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation (NPO) in millions to the plans listed for the current year were as follows:

| | WSPRS | JRS | Judges |
|---|---|---|---|
| Annual Required Contribution | $(11.9) | $13.3 | $0.2 |
| Interest on NPO | (4.3) | 2.9 | (0.2) |
| Adjustment to annual required contribution | 6.7 | (5.6) | 0.4 |
| Annual Pension Cost | (9.5) | 10.6 | 0.4 |
| Less Contributions Made | 0.0 | 7.3 | 0.8 |
| Increase (decrease) in NPO | (9.5) | 3.3 | (0.4) |
| NPO at beginning of year | (54.2) | 36.8 | (2.6) |
| NPO at end of year | (63.7) | 40.1 | (3.0) |

The valuation date for the plans is 12/31/2000. The actuarial cost method for the WSPRS is aggregate and for JRS and Judges is entry age normal. The unfunded amount is being amortized as a level dollar amount to 12/31/08 for JRS. All other methods and assumptions are the same as used in funding and disclosed in "Notes to Required Supplementary Schedules – Defined Benefit Pension Plans."

### F. Three Year Trend Information

The following table presents three-year trend information in millions for the plans listed:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| WSPRS | | | |
| Annual Pension Cost | $(9.5) | $(11.0) | $(6.5) |
| % of APC contributed | 0.0 | 0.0 | -90.8 |
| NPO | $(63.7) | $(54.2) | $(43.2) |
| JRS | | | |
| Annual Pension Cost | $10.6 | $10.3 | $10.3 |
| % of APC contributed | 68.9 | 70.9 | 85.4 |
| NPO | $40.1 | $36.8 | $33.8 |
| Judges | | | |
| Annual Pension Cost | $0.4 | $0.5 | $0.4 |
| % of APC contributed | 200.0 | 160.0 | 200.0 |
| NPO | $(3.0) | $(2.6) | $(2.3) |

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

### G. Changes in Actuarial Assumptions

For studies done after July 1, 2001, the investment assumption was changed from 7.5% to 8.0% and the salary inflation assumption was increased from 4.0% to 4.5%. The contribution rates for the 2001-03 Biennium were based on these new assumptions as well.

### H. Changes in Benefit Provisions

The School Employees' Retirement System (SERS) 2/3, was created by the Washington State Legislature in 1998. Beginning September 1, 2000, all eligible classified employees of school districts and educational service districts who are members of PERS Plan 2 automatically become members of SERS Plan 2. The benefits in SERS Plan 2 are identical to the benefits in PERS Plan 2. SERS Plan 2 members may choose to transfer to SERS Plan 3, which offers both a defined benefit component and a defined contribution component.

Changes in contribution rates were made as described above.

The PERS, TRS, and SERS systems allowed retirees to work more hours before their benefits are suspended.

WSPRS increased their cost-of-living allowance from a simple 2% annual increase to a compound 3% annual increase. Voluntary Department of Transportation overtime was excluded from the plan's definition of salary.

LEOFF and SERS had corrections made for errors in prior legislation.

Other changes had no material impact or were not effective this year and will not be recognized until members transfer to PERS 3 as described in Section B of this note.

### I. Defined Contribution Plans

#### Teachers Retirement System Plan 3 (TRS 3)

The Teachers Retirement System Plan 3 is a defined contribution (DC) plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include certificated employees in grades K-12 in the public schools hired after July 1, 1996, and those TRS 2/3 members who elect to transfer. There are 331 participating employers in TRS 3. Refer to Section B of this note for TRS plan descriptions.

As established by chapter 41.34 RCW, employee contribution rates range from 5 percent to 15 percent of salaries based on age. There are currently no requirements for employer contributions.

TRS 3 DC retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefit Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2001, employee contributions required and made were $125.3 million and plan refunds paid out were $20.1 million.

#### The School Employees' Retirement System (SERS 3)

The School Employees' Retirement System Plan 3 is a defined contribution (DC) plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include classified employees of school districts and educational service districts who are SERS 2/3 members after September 1, 2000, who elect to transfer. As of June 30, 2001, there are 295 participating employers in SERS 3. Refer to Section B of this note for SERS plan descriptions.

As established by RCW 41.35, employee contribution rates range from 5 percent to 15 percent of salaries based on age. There are currently no requirements for employer contributions.

SERS 3 retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2001, employee contributions required and made were $13.7 million and plan refunds paid out were $2.2 million.

**Judicial Retirement Account (JRA)**

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state of Washington Administrator for the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of the PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Employee contributions equal 2.5 percent of salary and the state, as employer, matches this amount. Contributions are collected by the Administrator for the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Current-year covered payroll for JRA employees was $19.3 million for the fiscal year ended June 30, 2001. For Fiscal Year 2001, the contribution requirement for JRA was $968,000. Actual employer and employee contributions were $484,000 each, for a total of $968,000. Plan benefits paid out for Fiscal Year 2001 totaled $335,753.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to such a person or persons having an insurable interest in the member's life, per written designation of the member.

Membership in TRS 3, SERS 3, and the Judicial Retirement Account consisted of the following at December 31, 2000:

| Plan Administered by the State | Retirees and Beneficiaries Receiving Benefits | Terminated Plan Members Entitled to but not yet Receiving Benefits | Active Plan Members Vested | Active Plan Members Nonvested | **Total** |
|---|---|---|---|---|---|
| TRS 3 | 92 | 1,242 | 16,036 | 22,244 | 39,614 |
| SERS 3 | 0 | 196 | 13,347 | 8,664 | 22,207 |
| JRA | 0 | 11 | 179 | n/a | 190 |

**Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF)**

TIAA/CREF, privately administered defined contribution plans, provide individual retirement fund contracts for each eligible employee. There are 38 participating state employers in the TIAA/CREF plan. Eligible employees include higher education faculty and other positions as designated by each institution; participation was established under chapter 28B.10 RCW. The employee must commence participation within the first two years of employment. Once eligible to participate in this system, members are vested immediately.

Employee contribution rates, which are based on age, range from 5 to 10 percent of salary. These rates are matched by the institution and sent to TIAA/CREF. The employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2001, covered payroll for TIAA/CREF employees was $1 billion and the contribution requirement for TIAA/CREF was $176 million. Actual employer and employee contributions were $88 million each, for a total of $176 million. These contribution amounts represent approximately 8 percent of covered payroll for employers and employees.

TIAA/CREF benefits are payable upon termination at the member's option unless the participant is reemployed in another institution which participates in TIAA/CREF.

Upon retirement, participant accumulations are used to purchase an annuity. The benefits are determined as follows: TIAA - accumulations are converted to a fixed guaranteed annuity payable for life. In addition to the guaranteed annuity, a dividend payment is declared each year depending on investment performance; CREF - at retirement the value of the fund is converted to a variable annuity. This means the annuity is not guaranteed but rises and falls with the value of equity investments.

### J. Plan Net Assets

Pension plan investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real estate investments has been estimated based on independent appraisals. Private equity investments are valued by independent investment advisors based on an analysis of the audited financial statements of the underlying partnerships. The pension funds have no investments of any commercial or industrial organization whose market value equals 5 percent or more of each plan's net assets.

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities.

# Combining Statement of Plan Net Assets

## Defined Benefit Pension Plans and Other Pension Trust Funds

June 30, 2001 (expressed in thousands)

| | Public Employees' Plan 1 | Public Employees' Plan 2 | Teachers' Plan 1 | Teachers' Plan 2/3 Defined Benefit | Teachers' Plan 3 Defined Contribution | School Employees' Plan 2/3 Defined Benefit |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| **Cash and pooled investments** | $ 5,636 | $ 940 | $ 4,956 | $ 1,232 | $ 911 | $ 700 |
| **Receivables:** | | | | | | |
| Interest and dividends | 48,858 | 48,390 | 42,053 | 15,531 | 3,881 | 6,186 |
| Contributions | 7,768 | 21,599 | 9,667 | 13,134 | - | 4,641 |
| Due from other funds | 3,520 | 312 | 124 | 8 | - | 3,051 |
| Other | 7,485 | 6,678 | 6,058 | 2,105 | 526 | 837 |
| **Total Receivables** | 67,631 | 76,979 | 57,902 | 30,778 | 4,407 | 14,715 |
| **Investments, Noncurrent:** | | | | | | |
| Asset backed securities | 123,142 | 122,218 | 105,964 | 39,078 | 9,877 | 15,774 |
| Collaterialized mort oblig | 427,884 | 424,674 | 368,197 | 135,784 | 34,321 | 54,812 |
| Commercial paper | 19,682 | 19,534 | 16,937 | 6,246 | 1,579 | 2,521 |
| Corporate bonds | 1,376,304 | 1,365,978 | 1,184,316 | 436,754 | 110,395 | 176,304 |
| Corporate stock | 465,063 | 461,574 | 400,189 | 147,582 | 37,303 | 59,574 |
| Govt securities domestic | 89,170 | 88,501 | 76,732 | 28,297 | 7,152 | 11,423 |
| Govt securities foreign | 40,456 | 40,153 | 34,813 | 12,838 | 3,245 | 5,182 |
| Government bonds | 1,988 | 1,973 | 1,710 | 631 | 159 | 255 |
| Repurchase agreements | 84,576 | 83,941 | 72,778 | 26,839 | 6,784 | 10,834 |
| Certificates of deposit | 115,507 | 114,641 | 99,395 | 36,655 | 9,265 | 14,796 |
| Mutual funds | 4,595,400 | 4,560,922 | 3,954,363 | 1,458,297 | 368,602 | 588,669 |
| Mortgages | 227,022 | 225,318 | 195,353 | 72,043 | 18,210 | 29,081 |
| Real estate | 862,256 | 855,787 | 741,975 | 273,627 | 69,163 | 110,455 |
| Private equity | 1,361,913 | 1,351,695 | 1,171,933 | 432,187 | 109,241 | 174,460 |
| Investments on loan | 468,559 | 465,044 | 403,197 | 148,692 | 37,584 | 60,023 |
| Short term investments | 387,624 | 397,199 | 341,049 | 136,746 | 29,393 | 41,419 |
| Other noncurrent investments | 1,628 | 392 | 1,288 | 371 | 813,523 | 167 |
| **Total Investments, Noncurrent** | 10,648,174 | 10,579,544 | 9,170,189 | 3,392,667 | 1,665,796 | 1,355,749 |
| **Total Assets** | 10,721,441 | 10,657,463 | 9,233,047 | 3,424,677 | 1,671,114 | 1,371,164 |
| **Liabilities:** | | | | | | |
| Obligations under security lending agreements | 484,399 | 480,130 | 417,058 | 154,363 | 38,485 | 61,531 |
| Accrued liabilities | 21,859 | 12,626 | 17,839 | 4,277 | 579 | 1,425 |
| Due to other funds | 643 | 4,516 | 275 | 592 | - | 3,723 |
| **Total Liabilities** | 506,901 | 497,272 | 435,172 | 159,232 | 39,064 | 66,679 |
| **Net Assets Held in Trust for Pension Benefits** (Schedule of funding progress by plan begins on page 96 ) | $ 10,214,540 | $ 10,160,191 | $ 8,797,875 | $ 3,265,445 | $ 1,632,050 | $ 1,304,485 |

| School Employees' Plan 3 Defined Contribution | LEOFF Plan 1 | LEOFF Plan 2 | Washington State Patrol Retirement System | Judicial Retirement System | Judicial Retirement Account | Judges' Retirement Fund | Volunteer Fire Fighters' Retirement System | **Totals** June 30, 2001 |
|---|---|---|---|---|---|---|---|---|
| $ 250 | $ 1,915 | $ 456 | $ 489 | $ 344 | $ 6 | $ 4,910 | $ 4,375 | $ 27,120 |
| | | | | | | | | |
| 1,677 | 23,869 | 11,203 | 3,149 | 34 | - | - | 549 | 205,380 |
| - | - | 7,472 | 82 | 18 | - | 1 | - | 64,382 |
| - | 7 | 6 | 1 | 2 | - | 19 | 5 | 7,055 |
| 227 | 3,297 | 1,550 | 428 | 22 | - | - | 74 | 29,287 |
| 1,904 | 27,173 | 20,231 | 3,660 | 76 | - | 20 | 628 | 306,104 |
| | | | | | | | | |
| 4,036 | 60,144 | 28,269 | 7,943 | - | - | - | 1,386 | 517,831 |
| 14,022 | 208,985 | 98,228 | 27,598 | - | - | - | 4,816 | 1,799,321 |
| 645 | 9,613 | 4,518 | 1,270 | - | - | - | 222 | 82,767 |
| 45,103 | 672,207 | 315,953 | 88,771 | - | - | - | 15,492 | 5,787,577 |
| 15,241 | 227,144 | 106,763 | 29,997 | - | - | - | 5,235 | 1,955,665 |
| 2,922 | 43,552 | 20,470 | 5,752 | - | - | - | 1,004 | 374,975 |
| 1,326 | 19,759 | 9,287 | 2,609 | - | - | - | 455 | 170,123 |
| 65 | 971 | 456 | 128 | - | - | - | 22 | 8,358 |
| 2,772 | 41,308 | 19,416 | 5,455 | - | - | - | 952 | 355,655 |
| 3,785 | 56,416 | 26,517 | 7,450 | - | - | - | 1,300 | 485,727 |
| 150,598 | 2,244,462 | 1,054,947 | 296,403 | - | - | - | 51,727 | 19,324,390 |
| 7,440 | 110,881 | 52,116 | 14,643 | - | - | - | 2,555 | 954,662 |
| 28,257 | 421,139 | 197,945 | 55,615 | - | - | - | 9,706 | 3,625,925 |
| 44,632 | 665,179 | 312,649 | 87,843 | - | - | - | 15,330 | 5,727,062 |
| 15,355 | 228,851 | 107,565 | 30,222 | - | - | - | 5,274 | 1,970,366 |
| 28,259 | 189,770 | 97,576 | 25,297 | 9,517 | - | - | 4,347 | 1,688,196 |
| 140,984 | 705 | 93 | 89 | 68 | 9,361 | 781 | 183 | 969,633 |
| 505,442 | 5,201,086 | 2,452,768 | 687,085 | 9,585 | 9,361 | 781 | 120,006 | 45,798,233 |
| 507,596 | 5,230,174 | 2,473,455 | 691,234 | 10,005 | 9,367 | 5,711 | 125,009 | 46,131,457 |
| | | | | | | | | |
| 16,634 | 236,525 | 111,312 | 31,242 | 64 | 1 | 741 | 5,605 | 2,038,090 |
| 490 | 7,381 | 2,730 | 1,130 | 149 | - | 12 | 137 | 70,634 |
| - | 106 | 177 | 5 | - | - | - | 1 | 10,038 |
| 17,124 | 244,012 | 114,219 | 32,377 | 213 | 1 | 753 | 5,743 | 2,118,762 |
| | | | | | | | | |
| $ 490,472 | $ 4,986,162 | $ 2,359,236 | $ 658,857 | $ 9,792 | $ 9,366 | $ 4,958 | $ 119,266 | $ 44,012,695 |

## Note 18 - Segment Information - Enterprise Funds

The state of Washington operates enterprise funds which are intended to be self-supported through fees charged to the public, or where a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Enterprise fund activities operated by the state include the following:

Liquor Fund
The Liquor Fund is used to account for the administration and operation of state liquor stores and warehouses, and the distribution of net proceeds.

Workers' Compensation Fund
The Workers' Compensation Fund is used to account for the workers' compensation program which provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

Convention and Trade Fund
The Convention and Trade Fund is used to account for the acquisition, design, construction, promotion and operation of the State Convention and Trade Center.

Lottery Fund
The Lottery Fund is used to account for lottery ticket revenues, administrative and operating expenses of the Lottery Commission, and the distribution of revenue.

Student Services Fund
The Student Services Fund is used by colleges and universities principally for bookstore, cafeteria, parking, student housing, food service, and hospital business enterprise activities.

All Other Enterprise Funds
Fees charged by the various activities including the Department of Corrections' Vocational and Educational programs, the Guaranteed Tuition Program, and operation of certain computer systems.

The table below reflects in a summarized format the significant enterprise fund activities that have occurred during the fiscal year ended June 30, 2001. Interfund transactions have not been eliminated for purposes of this analysis (expressed in thousands):

| | Liquor Fund | Workers' Comp. Fund | Convention and Trade Fund | Lottery Fund | Student Services Fund | All Other Enterprise Funds | **Total Enterprise Funds** |
|---|---|---|---|---|---|---|---|
| Operating Revenues | $ 94,433 | $ 1,657,168 | $ 9,626 | $ 483,906 | $ 818,924 | $ 26,316 | $ 3,090,373 |
| Depreciation and Amortization | 177 | 1,864 | 4,148 | 235 | 31,495 | 2,473 | 40,392 |
| Operating Income (Loss) | 25,675 | (422,674) | (8,507) | 130,984 | (18,419) | (17,328) | (310,269) |
| Operating Interfund Transfers (Net) | (54,073) | (11,096) | (13) | (127,337) | 13,015 | 6,110 | (173,394) |
| Tax Revenue | 43,519 | - | 42,271 | - | - | 445 | 86,235 |
| Net Income (Loss) | (5,067) | (362,864) | 23,988 | 51,153 | (715) | (2,295) | (295,800) |
| Current Capital Contribution (Return) | - | - | - | - | - | (1,147,658) | (1,147,658) |
| Net Working Capital | 10,691 | (1,525,224) | 20,144 | 18,392 | 266,874 | 69,991 | (1,139,132) |
| Change in Fixed Assets | 10,152 | (2,297) | 40,325 | (113) | 78,753 | (851,056) | (724,236) |
| Total Assets | 74,915 | 9,552,333 | 379,488 | 624,631 | 1,269,221 | 239,090 | 12,139,678 |
| Bonds and Other Long-Term Liabilities Payable from Operating Revenues | 21,711 | 12,983,876 | 311,464 | 476,317 | 304,082 | 106,114 | 14,203,564 |
| Total Equity | 13,208 | (5,426,175) | 54,366 | 55,386 | 776,465 | 68,859 | (4,457,891) |

## Note 19 - Condensed Financial Information - Component Units

The state has five proprietary type component units. Four of these components are financing authorities. They issue nonrecourse revenue bonds to provide low cost capital financing for programs deemed to be in the public interest without using public funds or lending the credit of the state. These component units are as follows:

Housing Finance
The Washington State Housing Finance Commission makes funds available to help provide housing throughout the state and to finance or refinance nursing homes and capital facilities owned and operated by nonprofit corporations.

Higher Education Facilities
The Washington Higher Education Facilities Authority provides funding to qualified, nonprofit higher education institutions in the state.

Health Care Facilities
The Washington Health Care Facilities Authority makes funds available to qualified, nonprofit health care facilities in the state.

Economic Development Finance
The Washington Economic Development Finance Authority makes funds available to qualified small and medium-sized businesses in the state.

The fifth component unit is:

The Public Stadium
The Washington State Public Stadium Authority, was formed to acquire, construct, own and operate a stadium, exhibition center and parking garage.

The tables below present the latest financial information available for the component units (expressed in thousands):

| **Balance Sheets** | Housing Finance | Higher Education Facilities | Health Care Facilities | Economic Development Finance | Public Stadium | **Totals** |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Current assets | $ 34,295 | $ 677 | $ 1,511 | $ 153 | $ 75,148 | $ 111,784 |
| Other nonfixed assets | 13,218 | 1 | 2,136 | - | 13,604 | 28,959 |
| Fixed assets | - | - | - | - | 330,798 | 330,798 |
| **Total Assets** | $ 47,513 | $ 678 | $ 3,647 | $ 153 | $ 419,550 | $ 471,541 |
| **Liabilities:** | | | | | | |
| Current liabilities | $ 1,451 | $ 104 | $ 112 | $ 9 | $ 21,761 | $ 23,437 |
| Long-term liabilities | 4,332 | - | 38 | - | 28,940 | 33,310 |
| **Total Liabilities** | 5,783 | 104 | 150 | 9 | 50,701 | 56,747 |
| **Equity** | 41,730 | 574 | 3,497 | 144 | 368,849 | 414,794 |
| **Total Liabilities and Equity** | $ 47,513 | $ 678 | $ 3,647 | $ 153 | $ 419,550 | $ 471,541 |

| Statements of Revenues, Expenses, and Changes in Equity | Housing Finance | Higher Education Facilities | Health Care Facilities | Economic Development Finance | Public Stadium | Totals |
|---|---|---|---|---|---|---|
| Operating revenues | $ 7,606 | $ 118 | $ 518 | $ 290 | $ 439 | $ 8,971 |
| Operating expenses | 6,519 | 181 | 605 | 145 | 3,914 | 11,364 |
| Operating income | 1,087 | (63) | (87) | 145 | (3,475) | (2,393) |
| Nonoperating revenue (expenses) | | | | | | |
| Earnings on investments | 3,108 | 44 | 243 | - | 2,712 | 6,107 |
| Sales tax | - | - | - | - | 1,500 | 1,500 |
| Interest | (344) | - | - | - | - | (344) |
| Net income | 3,851 | (19) | 156 | 145 | 737 | 4,870 |
| Equity, July 1 | 37,916 | 593 | 3,341 | (1) | 199,111 | 240,960 |
| Contributions of capital | (37) | - | - | - | 169,001 | 168,964 |
| **Equity, June 30** | $ 41,730 | $ 574 | $ 3,497 | $ 144 | $ 368,849 | $ 414,794 |

## Note 20 - Commitments and Contingencies

### A. Construction and Other Commitments

Outstanding commitments related to state facility construction, improvement, and/or renovation totaled $1.5 billion at June 30, 2001.

### B. Summary of Significant Litigation

The state and its agencies are parties to numerous routine legal proceedings which normally occur in governmental operations. At any given point in time, there may be numerous lawsuits involving state agencies which could impact expenditures. There is a recurring volume of tort and other claims for compensation and damages against the state and some specific state agencies, including the Departments of Transportation, Corrections, Social and Health Services, and the University of Washington. There are risk management funds reserved by the state for these claims and insurance is available to pay a portion of damages for certain types of claims. There has been a trend over the past two years of higher jury verdicts on certain types of damage claims. The collective impact of these claims, however, is not likely to have a material impact on state revenues or expenditures.

Social Service Program Administration Litigation

During the reporting period, there were a number of lawsuits challenging the management and administration of state programs. Some lawsuits seek an expansion of program social services for certain constituents. In *Allen v. Western State Hospital*, for instance, the Washington Protection and Advocacy System has filed a class action lawsuit on behalf of patients with developmental disabilities at Western State Hospital alleging that the state programs are inadequate and the state has failed to provide community base services when appropriate. The trial has been stayed pending further review of whether program changes and funding requests to the Legislature by the Department of Social and Health Services will resolve claims. *Arc, et al. v. Quasim* is a class action on behalf of the persons with developmental disabilities seeking access to Medicaid funded services. The trial has been stayed based on a settlement agreement contingent on additional future funding by the Legislature. If these claims are not resolved through settlement and the cases go to trial, it is difficult to estimate with any certainty the potential amount of damages which might be recovered. These lawsuits, however, are not expected to have a material impact on state revenues or expenditures. If relief is granted, there would be a need to reprioritize agency program expenditures in the budget process to provide program support for individuals in these classes.

Social Security Benefits

There is a class action lawsuit challenging the Department of Social and Health Services' authority to use Social Security benefits received on behalf of a foster child when it acts as a representative payee and applies the benefits toward the costs of the child's foster care. The Department currently receives $600,000 a month in Social Security monies that it uses for this purpose. This is consistent with the practice in other states. The lawsuit sought a declaratory ruling that the state may not obtain and use such funds for foster care services, along with a refund of funds used in the past. The State Supreme Court has determined that the Department may not use the Social Security funds in this manner. A motion for reconsideration has been filed and it is likely the United. States. Supreme Court will be asked to review this decision. If relief is affirmed, there would be a reduction of revenue to the state in the future, resulting in a need to seek additional funding or reprioritize use of existing funding. There also would be a follow-up proceeding to determine to what extent there should be refunds. It is difficult to estimate with any certainty the potential amount of refunds which might be recovered.

Business and Occupation Tax Structure Litigation

Over the past ten years, we have reported on the recurring litigation challenging the state's business and occupation tax structure (referred to as the interstate manufacturers litigation). This litigation represents the claims of approximately 115 corporate taxpayers for business and occupation tax refunds from periods from 1980 to the present. In the most recent round of this litigation, the United States Supreme Court denied certiorari review of an April 1999 decision by the Washington State Supreme Court. *W.R. Grace & Co. - Conn. And Chrysler Motors Corporation v. State of Washington, Department of Rev., and Buffelen Woodworking Co., et al. v. State of Washington, Department of Rev.* The State Supreme Court denied claims for a refund except to the extent the taxpayers could demonstrate entitlement to credits against their Washington State tax liability measured by gross receipt of taxes paid to other taxing jurisdictions outside of the state. In spite of the case history, the cases were remanded to Thurston County Superior Court, and the taxpayers have waived refunds measured by tax credits. The taxpayers continue to use other refund claims to try to re-present the issue to the United States Supreme Court. Sizeable refund awards, however, are considered remote.

Medicaid Reimbursement Litigation

In the past there has been periodic litigation involving Medicaid reimbursement issues. Over the last three years, there has been an increase in the number and types of claims. Currently, there are three lawsuits which raise issues such as eligibility for Medicaid benefits and the proper formula for cost reimbursement. In the previous cases, these types of claims have been limited and focused by courts through motion practice and eventually resolved through settlement agreements and legislative appropriation. It is difficult to predict whether the current cases might result in any significant amount of reimbursement under the theories presented. If substantial costs are recovered in any of those proceedings, there would be a need to reprioritize agency program expenditures in the budget process to cover any additional costs.

## C. Federal Assistance

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state. The state does estimate and recognize a claims and judgments liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state’s overall financial condition.

## D. Arbitrage Rebate

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

## Note 21 - Subsequent Events

### A. Bond Issues

In August 2001, the state issued $306.6 million in Various Purpose General Obligation Bonds, Series 2002A, and $31.5 million in State Housing Trust Fund Bonds, Series 2002T.

### B. Certificates of Participation

In August 2001, the state issued $2.1 million in Certificates of Participation for various statewide equipment lease purchases, Series 2001D.

In October 2001, the state issued $6.1 million in Certificates of Participation for various statewide equipment lease purchases, Series 2001E.

In October 2001, the state issued $4.1 million in real estate Certificates of Participation for the Department of Veteran Affairs.

In November 2001, the state issued $1 million in Certificates of Participation for various local real estate purchases, Series 2001B.

### C. Voter Initiatives

On November 6, 2001, voters approved Initiative 747 that limits any state and local regular property tax increases to 1% per year, unless voters approve a greater increase. The limitation on property taxes is estimated to reduce General Fund-State revenues by $25.1 million in the 2001-2003 Biennium.

The voters also approved Initiative 773 that increases the tax on tobacco and cigarettes. The tax increase is deposited to the Health Services Account. The General Fund-State is expected to lose cigarette tax revenue because of reduced consumption. The reduced consumption is estimated to decrease General Fund revenues by $9.1 million in the 2001-2003 Biennium.

Initiative 775 was also approved by the voters. I-775 establishes an authority to regulate and improve publicly funded in-home care services for elderly and disabled adults. This new authority is estimated to result in additional expenditures from General Fund-State totaling $1.8 million for the 2001-2003 Biennium.

# Required Supplementary Information

# Public Employees' Retirement System - Plan 1

## Schedule of Funding Progress

Calendar Years 2000 through 1995 (dollars in millions)

| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | 12/31/2000 | 12/31/1999 | 12/31/1998 | 12/31/1997 | 12/31/1996 | 12/31/1995 |
| Actuarial Value of Plan Assets | $ 11,111 | $ 10,456 | $ 9,219 | $ 8,211 | $ 7,197 | $ 6,440 |
| Actuarial Accrued Liability | 11,695 | 11,636 | 11,227 | 10,817 | 10,339 | 9,918 |
| Unfunded Actuarial Liability | 584 | 1,180 | 2,008 | 2,606 | 3,142 | 3,478 |
| Percentage Funded | 95% | 90% | 82% | 76% | 70% | 65% |
| Covered Payroll | 1,132 | 1,184 | 1,233 | 1,271 | 1,308 | 1,324 |
| Unfunded Actuarial Liability as a Percentage of Covered Payroll | 52% | 100% | 163% | 205% | 240% | 263% |

Source: Washington State Office of the State Actuary

# Teachers' Retirement System - Plan 1

## Schedule of Funding Progress

Fiscal Years 2000 through 1995 (dollars in millions)

| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | 6/30/2000 | 6/30/1999 | 6/30/1998 | 6/30/1997 | 6/30/1996 | 6/30/1995 |
| Actuarial Value of Plan Assets | $ 9,372 | $ 8,696 | $ 7,819 | $ 6,844 | $ 5,924 | ** |
| Actuarial Accrued Liability | 9,566 | 9,529 | 9,354 | 9,044 | 8,796 | ** |
| Unfunded Actuarial Liability | 194 | 833 | 1,535 | 2,200 | 2,872 | ** |
| Percentage Funded | 98% | 91% | 84% | 76% | 67% | ** |
| Covered Payroll | 957 | 984 | 1,046 | 1,083 | 1,128 | ** |
| Unfunded Actuarial Liability as a Percentage of Covered Payroll | 20% | 85% | 147% | 203% | 255% | ** |

** data not available

Source: Washington State Office of the State Actuary

# Law Enforcement Officers' and Fire Fighters' Retirement System- Plan 1

## Schedule of Funding Progress

Calendar Years 2000 through 1995 (dollars in millions)

| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | 12/31/2000 | 12/31/1999 | 12/31/1998 | 12/31/1997 | 12/31/1996 | 12/31/1995 |
| Actuarial Value of Plan Assets | $ 5,440 | $ 5,150 | $ 4,568 | $ 4,087 | $ 3,594 | ** |
| Actuarial Accrued Liability | 4,002 | 4,125 | 3,906 | 3,767 | 4,006 | ** |
| Unfunded (Assets in Excess of) | | | | | | |
| Actuarial Liability | (1,437) | (1,024) | (662) | (320) | 412 | ** |
| Percentage Funded | 136% | 125% | 117% | 108% | 90% | ** |
| Covered Payroll | 95 | 106 | 117 | 128 | 137 | ** |
| Unfunded Actuarial Liability as a | | | | | | |
| Percentage of Covered Payroll | N/A | N/A | N/A | N/A | 301% | ** |

** data not available

Source: Washington State Office of the State Actuary

# Judicial Retirement System

## Schedule of Funding Progress

Calendar Years 2000 through 1995 (dollars in millions)

| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | 12/31/2000 | 12/31/1999 | 12/31/1998 | 12/31/1997 | 12/31/1996 | 12/31/1995 |
| Actuarial Value of Plan Assets | $ 10 | $ 9 | $ 8 | $ 5 | $ 4 | ** |
| Actuarial Accrued Liability | 93 | 94 | 97 | 95 | 92 | ** |
| Unfunded Actuarial Liability | 83 | 85 | 89 | 90 | 88 | ** |
| Percentage Funded | 11% | 10% | 8% | 5% | 4% | ** |
| Covered Payroll | 4.0 | 4.0 | 4.0 | 4.0 | 5.0 | ** |
| Unfunded Actuarial Liability as a | | | | | | ** |
| Percentage of Covered Payroll | 2075% | 2125% | 2225% | 2250% | 1760% | ** |

** data not available

Source: Washington State Office of the State Actuary

# Volunteer Fire Fighters' Relief and Pension Fund

## Schedule of Funding Progress

Calendar Years 2000 through 1995 (dollars in millions)

| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | 12/31/2000 | 12/31/1999 | 12/31/1998 | 12/31/1997 | 12/31/1996 | 12/31/1995 |
| Actuarial Value of Plan Assets | $ 126 | $ 118 | $ 102 | $ 91 | $ 74 | $ 69 |
| Actuarial Accrued Liability | 96 | 98 | 94 | 69 | 67 | 65 |
| Unfunded (Assets in Excess of) | | | | | | |
| Actuarial Liability | (30) | (20) | (8) | (22) | (7) | (4) |
| Percentage Funded | 131% | 120% | 109% | 132% | 110% | 106% |
| Covered Payroll* | N/A | N/A | N/A | N/A | N/A | N/A |
| Unfunded Actuarial Liability as a | | | | | | |
| Percentage of Covered Payroll | N/A | N/A | N/A | N/A | N/A | N/A |

*Covered Payroll is not presented because it is not applicable since this is a volunteer organization.

Source: Washington State Office of the State Actuary

# Judges' Retirement Fund

## Schedule of Funding Progress

Calendar Years 2000 through 1995 (dollars in millions)

| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | 12/31/2000 | 12/31/1999 | 12/31/1998 | 12/31/1997 | 12/31/1996 | 12/31/1995 |
| Actuarial Value of Plan Assets | $ 5 | $ 4 | $ 4 | $ 4 | $ 3 | ** |
| Actuarial Accrued Liability | 6 | 6 | 7 | 7 | 7 | ** |
| Unfunded Actuarial Liability | 1 | 2 | 3 | 3 | 4 | ** |
| Percentage Funded | 83% | 67% | 57% | 57% | 43% | |
| Covered Payroll | 0.1 | 0.1 | 0.1 | 0.2 | 0.4 | ** |
| Unfunded Actuarial Liability as a | | | | | | |
| Percentage of Covered Payroll | 1000% | 2000% | 3000% | 1500% | 1000% | ** |

** data not available

Source: Washington State Office of the State Actuary

# Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2001 through 1996

| | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|
| **Public Employees' Retirement System - Plan 1** (expressed in millions) | | | | | | |
| Employers' Annual Required Contribution | $ 118.8 | $ 199.2 | $ 237.6 | $ 287.2 | $ 355.0 | $ 372.0 |
| Employers' Actual Contribution | 181.7 | 200.2 | 234.3 | 226.1 | 206.0 | 201.0 |
| Percentage Contributed | 153% | 101% | 99% | 79% | 58% | 54% |
| **Public Employees' Retirement System - Plan 2** (expressed in millions) | | | | | | |
| Employers' Annual Required Contribution | $ 55.6 | $ 103.6 | $ 86.6 | $ 106.3 | $ 185.0 | $ 195.0 |
| Employers' Actual Contribution | 115.0 | 101.9 | 238.4 | 222.8 | 224.0 | 195.0 |
| Percentage Contributed | 207% | 98% | 275% | 210% | 121% | 100% |
| **Teachers' Retirement System - Plan 1** (expressed in millions) | | | | | | |
| Employers' Annual Required Contribution | $ 90.6 | $ 176.1 | $ 209.7 | $ 269.7 | $ 338.0 | $ 355.0 |
| Employers' Actual Contribution | 141.3 | 183.0 | 222.5 | 211.6 | 210.0 | 225.0 |
| Percentage Contributed | 156% | 104% | 106% | 78% | 62% | 63% |
| **Teachers' Retirement System - Plan 2/3** (expressed in millions) | | | | | | |
| Employers' Annual Required Contribution | $ 40.4 | $ 56.2 | $ 45.9 | $ 59.8 | $ 82.0 | $ 79.0 |
| Employers' Actual Contribution | 69.6 | 75.3 | 100.2 | 105.6 | 103.0 | 79.0 |
| Percentage Contributed | 172% | 134% | 218% | 177% | 126% | 100% |
| **School Employees' Retirement System - Plan 2/3** (expressed in millions) | | | | | | |
| Employers' Annual Required Contribution | $ 6.7 | N/A | N/A | N/A | N/A | N/A |
| Employers' Actual Contribution | 19.9 | N/A | N/A | N/A | N/A | N/A |
| Percentage Contributed | 297% | N/A | N/A | N/A | N/A | N/A |

Source: Washington State Office of the State Actuary

** data not available

N/A SERS did not exist prior to 9/1/2000

# Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2001 through 1996

| | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|
| **Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1** (expressed in millions) | | | | | | |
| Employers' Annual Required Contribution | $ 0.0 | $ 6.3 | $ 6.9 | $ 7.5 | $ 8.1 | ** |
| Employers' Actual Contribution | 0.1 | 6.3 | 7.2 | 7.6 | 8.2 | ** |
| Percentage Contributed | NA | 100% | 104% | 101% | 101% | ** |
| State Annual Required Contribution | (100.5) | (66.1) | (33.7) | (3.1) | 67.1 | ** |
| State Actual Contribution | - | - | 48.8 | 50.4 | 66.7 | ** |
| Percentage Contributed | N/A | N/A | N/A | N/A | 99% | ** |
| **Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2** (expressed in millions) | | | | | | |
| Employers' Annual Required Contribution | $ 20.3 | $ 26.9 | $ 22.3 | $ 22.5 | $ 28.1 | ** |
| Employers' Actual Contribution | 31.5 | 26.2 | 34.3 | 31.1 | 28.5 | ** |
| Percentage Contributed | 155% | 97% | 154% | 138% | 101% | ** |
| State Annual Required Contribution | 13.5 | 18.0 | 14.9 | 15.0 | 18.7 | ** |
| State Actual Contribution | 20.9 | 17.1 | 22.2 | 20.1 | 17.7 | ** |
| Percentage Contributed | 155% | 95% | 149% | 134% | 95% | ** |
| **Washington State Patrol Retirement System** (expressed in millions) | | | | | | |
| Employers' Annual Required Contribution | $ (11.9) | $ (11.4) | $ (6.7) | $ (3.9) | $ 0.5 | ** |
| Employers' Actual Contribution | - | - | 5.9 | 6.0 | 6.8 | ** |
| Percentage Contributed | N/A | N/A | N/A | N/A | 1360% | ** |

Source: Washington State Office of the State Actuary

** data not available

# Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2001 through 1996

| | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|
| **Judicial Retirement System** (expressed in millions) | | | | | | |
| Employers' Annual Required Contribution | $ 13.3 | $ 12.5 | $ 12.2 | $ 11.6 | $ 12.7 | ** |
| Employers' Actual Contribution | 7.3 | 7.3 | 8.8 | 8.8 | 6.9 | ** |
| Percentage Contributed | 55% | 58% | 72% | 76% | 54% | ** |
| **Judges' Retirement Fund** (expressed in millions) | | | | | | |
| Employers' Annual Required Contribution | $ 0.2 | $ 0.3 | $ 0.3 | $ 0.4 | $ 0.4 | ** |
| Employers' Actual Contribution | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | ** |
| Percentage Contributed | 400% | 267% | 267% | 200% | 200% | ** |
| **Volunteer Fire Fighters' Relief and Pension Fund** (expressed in millions) | | | | | | |
| Employers' Annual Required Contribution | $ 0.7 | $ 0.7 | $ 0.8 | $ 0.7 | $ 0.5 | ** |
| Employers' Actual Contribution | 0.7 | 0.7 | 0.8 | 0.7 | 0.6 | ** |
| Percentage Contributed | 100% | 100% | 100% | 100% | 120% | ** |
| State Annual Required Contribution | $ (1.0) | $ 0.1 | $ 0.8 | $ (0.3) | $ 0.4 | ** |
| State Actual Contribution | 3.3 | 2.7 | 2.5 | 2.0 | 3.0 | ** |
| Percentage Contributed | N/A | 2700% | 313% | N/A | 750% | ** |

Source: Washington State Office of the State Actuary

** data not available

# Notes to Required Supplementary Schedules
# Defined Benefit Pension Plans

For the Fiscal Year Ended June 30, 2001

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

| | PERS Plan 1 | PERS Plan 2 | TRS Plan 1 | TRS Plan 2/3 | SERS Plan 2/3 |
|---|---|---|---|---|---|
| Valuation - date | 12/31/2000 | 12/31/2000 | 6/30/2000 | 6/30/2000 | 12/31/2000 |
| Actuarial cost method | entry age | aggregate** | entry age | aggregate** | aggregate** |
| Amortization Method: | | | | | |
| Funding | level % | n/a | level % | n/a | n/a |
| GASB | level $ | n/a | level $ | n/a | n/a |
| Remaining amortization period (closed) | 6/30/2024 | n/a | 6/30/2024 | n/a | n/a |
| Asset valuation method | 4-year smoothed fair value | 4-year smoothed fair value | 4-year smoothed fair value | 4-year smoothed fair value | 4-year smoothed fair value |
| Actuarial assumptions: | | | | | |
| Investment rate of return | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% |
| Projected salary increases (5) | (1) | (1) | (2) | (2) | (1) |
| Includes inflation at | 3.50% * | 3.50% | 3.50% * | 3.50% | 3.50% |
| Cost of living adjustments | Uniform COLA* gain sharing COLA* | CPI increase, maximum 3% | Uniform COLA* gain sharing COLA* | CPI increase, maximum 3% | CPI increase, maximum 3% |

Significant Assumptions:

(1) 4.7% for the first year grading to zero with 17 years of service
(2) 5.0% for the first year grading to 1.5% with 15 years of service and .5% thereafter
(3) 9.0% for the first year grading to .6% with 18 years of service and .5% thereafter
(4) 6.0% followed by a non-monotonic decrease to zero after 7 years of service
(5) Salary Inflation at 4.5% plus the merit increase described above.

* Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year.
The Uniform COLA increase is added every July. On 7/1/1999, it was $0.77 per year of service.
The gain sharing COLA is added every even-numbered year if certain extraordinary investment gains are achieved.
In 1998, it was $0.11. On 1/1/2000, it was $0.28 per year of service.
The next Uniform COLA amount is calculated as the last Uniform COLA amount plus any gain sharing COLA amount, all increased by 3%. On 7/1/2000, it is ($0.77+$0.28)x1.03 = $1.08. On 7/1/2001, it is ($1.08+$0.00)x1.03 = $1.11.

** The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

*** Pay-as-you-go for funding

| LEOFF Plan 1 | LEOFF Plan 2 | WSPRS | JRS | Judges | VFFRPF |
|---|---|---|---|---|---|
| 12/31/2000 | 12/31/2000 | 12/31/2000 | 12/31/2000 | 12/31/2000 | 12/31/2000 |
| entry age | aggregate** | aggregate** | entry age*** | entry age*** | entry age |
| level % | n/a | n/a | n/a | n/a | level $ |
| level $ | n/a | n/a | level $ | level $ | level $ |
| 6/30/2024 | n/a | n/a | 12/31/2008 | 12/31/2008 | 12/31/2017 |
| 4-year smoothed fair value | 4-year smoothed fair value | 4-year smoothed fair value | market | market | 4-year smoothed fair value |
| 8.00% | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% |
| (3) | (3) | (4) | 4.5% | 4.5% | n/a |
| 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | n/a |
| CPI increase | CPI increase, maximum 3% | CPI increase, maximum 3% | 3.00% | none | none |

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## APPENDIX E

## CERTIFICATE PAYMENT SCHEDULE AND CUSIP NUMBERS

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**STATE OF WASHINGTON**
**CERTIFICATES OF PARTICIPATION**
**$12,870,000**

**OFFICE OF THE SECRETARY OF STATE, SERIES 2002F**
**(EASTERN WASHINGTON REGIONAL ARCHIVES PROJECT)**

**Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in Base Rent Payments to be Made by the State of Washington Pursuant to the State Agency Financing Lease**

**CERTIFICATE PAYMENT SCHEDULE**

| Certificate Payment Date (July 1) | Principal Component | CUSIP Numbers |
|---|---|---|
| 2003 | $ 310,000 | 939718Q39 |
| 2004 | 650,000 | 939718Q47 |
| 2005 | 670,000 | 939718Q54 |
| 2006 | 700,000 | 939718Q62 |
| 2007 | 710,000 | 939718Q70 |
| 2008 | 730,000 | 939718Q88 |
| 2009 | 750,000 | 939718Q96 |
| 2010 | 780,000 | 939718R20 |
| 2011 | 810,000 | 939718R38 |
| 2012 | 845,000 | 939718R46 |
| 2013 | 880,000 | 939718R53 |
| 2014 | 925,000 | 939718R61 |
| 2015 | 960,000 | 939718R79 |
| 2016 | 1,000,000 | 939718R87 |
| 2017 | 1,050,000 | 939718R95 |
| 2018 | 1,100,000 | 939718S29 |
| Total | $ 12,870,000 | |

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# APPENDIX F

# BOOK-ENTRY TRANSFER SYSTEM

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## BOOK-ENTRY TRANSFER SYSTEM

*The following information has been provided by DTC. The state makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).*

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Certificates in the principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*.

Purchases of Certificates under the DTC system, in Authorized Denominations, must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they will be sent by the Bond Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Certificates are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the state as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distribution and dividend payments on the Certificates will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the state or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Registrar or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the state or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the Bond Registrar or the state. Under such circumstances, in the event that a successor securities depository is not obtained, new certificates are required to be printed and delivered.

The state may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

# APPENDIX G

# MUNICIPAL BOND INSURANCE POLICY SPECIMEN

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MBIA

# FINANCIAL GUARANTY INSURANCE POLICY

## MBIA Insurance Corporation
## Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]**
**[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

SPECIMEN

President

Attest:

Assistant Secretary

STD-R-6
4/95

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